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AUGUST 31, 1987

CableVision

INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

ESPN TACKLES AN 8.9 NFL RATING

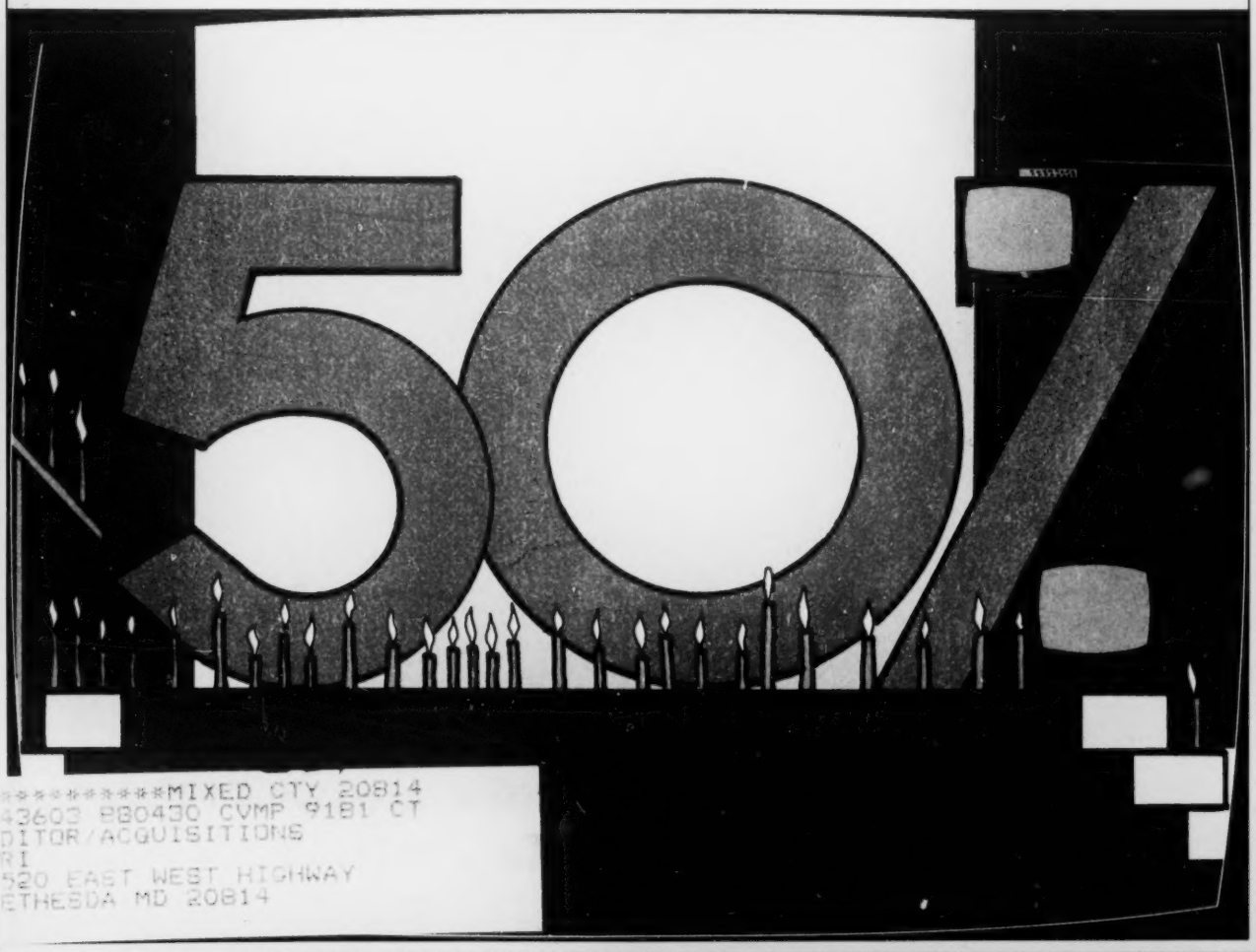
CTAM DEBATES CABLE'S COMPETITIVE EDGE

ASSESSING THE SHAPE OF HOME SHOPPING

DATABASE SHOWS STRONG FIRST HALF FOR PAY

CENTEL RINGS UP A CABLE PUBLIC OFFERING

HALFWAY HOME: THE MYTH AND MEANING OF 50



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OK, so the glass is half-full. Now, how can cable fulfill its potential and serve the rest of the country? We present two possible glimpses into the future: A look at the shape of the business in 1993, when penetration could stand at 60 percent. Then we look at a different landscape, one in which cable's future could be imperiled by a new wire on the pole.

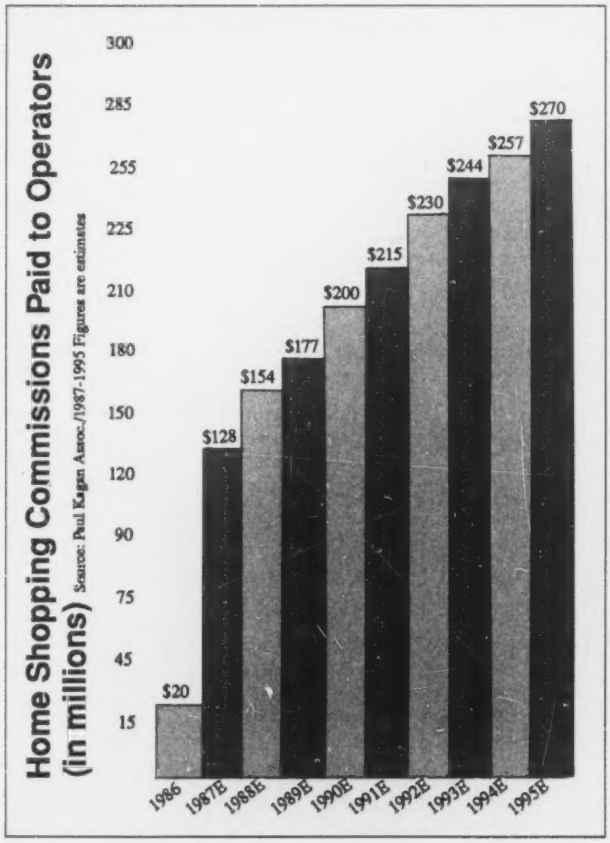
'This is becoming a crowded marketplace'

Equity deals, explosion of services cloud future trends in home shopping

By John Motavalli

As the rapidly shifting home-shopping marketplace begins to settle down a little, some key patterns are beginning to emerge.

- Some operators are concerned that the major equity stakes that home shopping services have been offering in exchange for long-term carriage commitments have led some MSOs to over-stock the channels, tying up channel capacity and offering more video retailing than viewers want. But the investments have been lucrative for operators, often resulting in a quick rise in an MSO's stock price, analysts note.
- Three key services—The Cable Value Network, The QVC Network and The Home Shopping Network—look to be the winners in the broad-based home-shopping market, with an uphill fight facing any newcomer to the field, such as the forthcoming Shop Television Network. Ancillary channels, such as The Travel Channel and The Fashion Channel also look promising. But many operators say that adding incremental channels does not expand home shopping revenue geometrically. According to Paul Kagan Associates, operators should be bringing in $200 million in home shopping commissions by 1990 (see chart).
- One more area of growth could be exploration of video retailing through existing cable services. Jerrold, which operates the Cable Video Store pay-per-view channel, will begin selling videotapes of hit movies and other product on its channel soon, and FNN's TelShop has been modestly successful as an accompaniment to FNN's business news and sports programming, with a wholly separate TelShop feed due next year.
- Analysts and operators agree that interactive home shopping will play a major part in the marketplace. Touche Ross & Co., a San Francisco-based management consulting firm, forecasts that interactive services will account for up to $3 billion of the $8 billion that home shopping could be bringing in by 1990. Telaction, J.C. Penney's much heralded interactive service, is now in the midst of a market test in 75 homes in an unnamed system in the northern suburbs of Chicago, according to spokesman Mary Dale Walters. Centel Cable had talked to Penney last fall about being involved in the Telaction test, according to Thomas Wehling, a Centel vice president, but the "equipment wasn't quite ready." The service represents a $40 million investment from Penney, observers say.



Also without fanfare, GTE is planning a test in Boston-area cable systems of an interactive channel similar to Telaction, but with some technological advancements, claims Joseph Citarella, GTE's director of marketing. GTE hopes that the service, dubbed Main Street, can begin market testing in Boston during the fourth quarter.

The channel has similarities to J.C. Penney's Telaction, according to Citarella, in that it will be accessed through a telephone and uses an electronic menu to dial up a group of product categories from a selected group of retailers. Shoppers will see a series of rapidly shifting product stills accompanied by narration when they chose a particular item from the available menus, and can order through their telephones.

But it also has several advances over the delivery system designed for Telaction by Cableshare, a Canadian firm. Citarella says Main Street can be accessed through any telephone, not just a touch-tone unit. It also will use an in-home frame-store, rather than the pole-mounted unit being tested by Telaction. The in-home unit, which Citarella says would be similar in size to a cable converter, will be more versatile than Cableshare's because it does not have the "party line" aspects. Cableshare's pole-mounted frame store serves about 15 homes, and only one of those homes at a time can access it.

Citarella says Main Street could be used for a variety of applications, including electronic banking and mail as well as home shopping. He notes that GTE has been quiet about the new service because it has not yet determined that it will offer it commercially and because "we have some proprietary technology."

In a simultaneous move toward greater

interactivity, the Jerrold division of General Instrument Corp. also is working with the three major shopping networks on developing impulse ordering, which would only require a "crawl" at the bottom of a channel's feed advising impulse-equipped customers that they can order merchandise directly through their impulse sidecars. "We're out to put phone operators out of business," quips Hal Krisbergh, vice president and general manager of Jerrold's subscriber systems division.

Home shopping stakes

The home shopping stakes have become truly enormous. CVN President Peter Barton says the company now has 3,200 employees, can handle 100,000 orders a day, and expects to bring in $350 million this year, paying "at least" $15 million to operators. HSN recently announced a take of $4.5 million for a single day (June 23), the result of a newly installed telephone system. Net sales for HSN's second quarter were $165.3 million. (Some cable observers, particularly Barton, grumble that much of that revenue came from HSN's broadcast operations, without benefiting operators who do not carry HSN's UHF channels.) QVC chairman, Joseph Segel, says the company is "very confident" that its net billings for its first fiscal year will exceed $100 million.

The equity offerings have been major inducements to operators. In June, for example, CVN announced it had signed seven-year affiliation agreements with 16 major operators serving 15 million subscribers, with plans to have 20 million under contract by year-end. CVN is in the process of merging with the merchandiser C.O.M.B. Co., and the deal that operators worked out with CVN will give the MSOs 50 percent of the new entity, CVN Companies. QVC, in what CVN's Barton calls a copycat move, also has offered operators equity in exchange for seven-year deals, announcing in July that operators have bought a total of 483,000 shares of QVC convertible preferred stock, with no fixed dividend, at $10 per share. Comcast Cable alone owns about 15 percent of the channel.

HSN's president, Lowell "Bud" Paxson, has said that 68 out of the top 80 MSO's own HSN stock, with a total value of $125 million. The Fashion Channel will launch in October with commitments from 66 MSOs representing a roll-out to 18.3 million subscribers over the next three years, the company says, in a deal that will give its operator partners some 2.5 million shares of the channel's class B stock, at 20 cents a share.

These opportunities from the three major broad-based channels has created a "gold rush or land-grant mentality" at some MSOs, laments a prominent operator, who asked not to be named because he disagrees with his own company's approach to home shopping. His MSO offers all three channels—CVN, HSN and QVC—on most systems, he says, because top management "saw a quick hit to the bottom line. Some companies, by signing up to these deals, increased the net worth of the company by up to $1 million. But I don't know if

carrying three or four shopping channels is consumer friendly."

Splitting the audience

Observes Dennis McAlpine, an industry analyst for Oppenheimer & Co., "The MSOs' home shopping holdings can be sizable. If you can rationalize that there's no negative impact on your subscribers, certainly the stock investments will be a positive contribution to an MSO's valuation. But if you run three of these channels, you split the audience too much."

Barton says the current situation is not healthy for some MSOs, noting that he could immediately think of at least four MSOs that are currently faced with a shopping-channel glut. "It's like the days of multi-pay—everyone thought that more was better, but it turned out to be more of the same and it turned a lot of people off to the category," he says, adding that the majority of CVN's affiliates have at least one other shopping channel.

Barton, a former Tele-Communications Inc. executive, maintains that QVC "came along and adopted a look that's identical to ours, with a product mix and an equity plan that's also identical to ours. What would be useful for operators to schedule is differentiated services, like The Fashion Channel or Sky Merchant."

The glut of channels will make it difficult for new networks to get off the ground. According to Electronic Shopping News, an industry newsletter, there are now 31 home shopping networks operating full or part time, and most of these are seeking cable carriage. When *CableVision* last listed national home shopping services in its Sept. 1, 1986, issue last year, there were 17. Notes Mark Riely, an analyst with Eberstadt Fleming, "I think the minor-league services aren't going to survive."

Most of the contending players are offering operators the standard 5 percent commission but some, such as America's Shopping Channel, part-owned by Cox Cable, are offering up to 10 percent. Shop Television Network's plan to launch on cable came after an inital plan, developed with LBS Communications, to launch on broadcast fell through. But analysts think it will be a hard fight, even though STN is planning to offer, during its first six months, a guaranteed minimum commission payment that would match that of a system's best-paying shopping service and a 2 percent stake in the company for every 1 million subs committed to STN before its Oct. 16 launch.

Michael Rosen, STN's president, acknowledged that "this is becoming a crowded marketplace," adding, "We realized that if we didn't come in now there definitely could be a lockout." Rosen said that STN will be differentiated from its competitors because it is offering top-rank merchandise from J.C. Penney—sporting goods, electronics, clothing and new technologies. He noted that STN's on-air look would be faster paced than other existing channels. STN hired about a third of the staff of the now-defunct Value Television (VTV), an

Continued on page 36

Pay Per View Supply Chart

A listing of movies and events entering PPV distribution over the next two months.

September

Condorman (9/17) — Source: Walt Disney
MPAA Rating: PG Running Time: 90 mins.
Cast: Barbara Carrera, Oliver Reed.

From The Hip (9/2) — Source: Lorimar
MPAA Rating: PG Running Time: 111 mins.
Cast: Judd Nelson, Elizabeth Perkins, John Hurt.

The Good Wife (9/2) — Source: Paramount
MPAA Rating: R Running Time: 97 mins.
Cast: Rachel Ward, Bryan Brown, Sam Neill.

Hot Dog...The Movie (9/17) — Source: MGM/UA
MPAA Rating: R Running Time: 95 mins.
Cast: David Naughton, Shannon Tweed, Patrick Houser.

Munchies (9/17) — Source: MGM/UA
MPAA Rating: R Running Time: 83 mins.
Cast: Harvey Korman, Charles Stratton, Nadine Van Der Veld.

Penitentiary II (9/17) — Source: MGM/UA
MPAA Rating: R Running Time: 107 mins.
Cast: Mr. T, Leon Isaac Kennedy, Glynn Turman.

Pretty Smart (9/11) — Source: HBO Enterprises
MPAA Rating: R Running Time: 84 mins.
Cast: Tricia Lee Fisher, Patricia Arquette, Dennis Cole.

Radio Days (9/1) — Source: Orion
MPAA Rating: PG Running Time: 88 mins.
Cast: Mia Farrow, Diane Wiest, Julie Kamer, Joshua Mostel.

Some Kind of Wonderful (9/2) — Source: Paramount
MPAA Rating: PG-13 Running Time: 95 mins.
Cast: Eric Stoltz, Mary Stuart Masterson, Lea Thompson.

Wild Thing (9/2) — Source: Paramount
MPAA Rating: PG-13 Running Time: 95 mins.
Cast: Rob Knepper, Kathleen Quinlin, Betty Buckley.

October

The Allnighter (10/1) — Source: Universal
MPAA Rating: PG-13 Running Time: 95 mins.
Cast: Susanna Hoffs, Dedee Pfeiffer, John Terlesky.

Blind Date (10/1) — Source: Tri-Star
MPAA Rating: PG-13 Running Time: 95 mins.
Cast: Bruce Willis, Kim Basinger, John Larroquette.

Burglar (10/29) — Source: Warner Bros.
MPAA Rating: R Running Time: 103 mins.
Cast: Whoopie Goldberg, Bobcat Goldthwait, Leslie Ann Warren.

Crocodile Dundee (10/1) — Source: Paramount
MPAA Rating: PG-13 Running Time: 97 mins.
Cast: Paul Hogan, Linda Kozlowski, Mark Blum.

Death Before Dishonor (10/15) — Source: HBO Enterprises
MPAA Rating: R Running Time: 95 mins.
Cast: Fred Dryer, Brian Keith, Joanna Pacula.

84 Charing Cross Road (10/1) — Source: Columbia
MPAA Rating: PG Running Time: 99 mins.
Cast: Ann Bancroft, Anthony Hopkins.

Ernest Goes To Camp (10/29) — Source: Touchstone
MPAA Rating: PG Running Time: 93 mins.
Cast: Not Available.

Heat (10/15) — Source: New Century/Vista
MPAA Rating: R Running Time: 102 mins.
Cast: Burt Reynolds, Karen Young, Peter MacNicol, Howard Hesseman.

Hoosiers (10/14) — Source: HBO Productions
MPAA Rating: PG Running Time: 114 mins.
Cast: Gene Hackman, Dennis Hopper, Barbara Hershey.

Nice Girls Don't Explode (10/29) — Source: HBO Productions
MPAA Rating: PG Running Time: 92 mins.
Cast: Barbara Harris, Wallace Shawn, Michelle Meyrink.

Raising Arizona (10/1) — Source: 20th Century-Fox
MPAA Rating: PG-13 Running Time: 94 mins.
Cast: Nicholas Cage, Holly Hunter.

The Stepfather (10/1) — Source: New Century/Vista
MPAA Rating: R Running Time: 88 mins.
Cast: Terry O'Quinn, Jill Schoelen, Shelly Hack.

Trick Or Treat (10/22) — Source: Lorimar
MPAA Rating: R Running Time: 97 mins.
Cast: Mark Price, Tony Fields, Lisa Orgolini, Doug Savant.

Note: Running times are approximate.
NR indicates film not rated by MPAA.
* Unavailable at presstime.

Film information provided to International Thomson Communications Inc. by distributors.

Pay Per View Services Profile

	LAUNCH	DELIVERY	ENCRYPTION	PROGRAMMING	SUBSCRIBERS
Cable Video Store	April 1, 1986	Satcom 4, tr. 16	VideoCipher II	All movies, 24 hours per day 50-60 titles per month	Field trial basis; currently serving 10 MSOs nationwide. (2,500 Impulse addressable subscribers).
Private Ticket	July 1985	Standalone	None	Two and one-half hours nightly. One original title, plus up to two licensed films edited for Playboy.	Available in systems serving 185,000 subs (139,000 addressable).
Request Television	November 27, 1985	Galaxy 1, tr. 12	VideoCipher II	Min. of four major motion pictures per week over 14 day cycle, special events	Available in systems serving 3 million subs. (2 million addressable).
Telstar Channels	June 5, 1986	Interrum Standalone, testing on Telstar 303	Testing G.I. Starloc IV	Channels 1 & 2: two major motion pictures on a bi-weekly rotation. Channel 3: three major motion pictures per week, special events.	Available in systems serving 74,000 subs (11,500 addressable).
Viewer's Choice	November 26, 1985	VC-1 Satcom 3R, tr. 5, VC-2 Galaxy 1, tr. 16	VideoCipher II	One major motion picture per week, special events	Available in systems serving 2.6 million subs. (1.6 million addressable).

Continued from page 28

attempt by Lorimar-Telepictures to present home shopping through syndication. Despite the failure of the show on broadcast TV, Rosen said it had brought in about $250,000 for each of its one-hour broadcasts.

Centel Cable could be a fairly representative example of what new services are up against. Wehling, vice president of marketing, says that Centel makes about $500,000 annually from home shopping, about $1.20 per sub in a network offering restricted to HSN and FNN's TelShop. Wehling says Centel decided not to go for the long-term contracts with QVC and CVN, despite the obvious temptation, because the company did not want to over-invest in video retailing. "We're in the cable TV business, not the home shopping business," he states.

But Centel does want to offer other differentiated services, he adds, and the company is looking seriously at also offering The Fashion Channel and The Travel Channel.

Regional promotions

At Gill Cable in San Jose, Calif., with over 120,000 subscribers, executive vice president and general manager Ben Reichmuth says his company has also resisted the seven-year affiliation deals because "we haven't considered anything that ties up a channel that long—we don't want to get carried away." But Gill signed three-year deals with CVN and HSN and will schedule partial carriage of The Fashion Channel. Reichmuth says Gill decided to go with CVN because, in the San Francisco Bay area, "they have such a concentration in this market, with Viacom, United, TCI and the Hearst systems all carrying it. It makes a lot more sense for regional promotions."

Reichmuth cautions that adding an extra home shopping channel does not necessarily result in drastically increased revenues. "It's not fair to say that one and one makes two," he says, noting that Gill had averaged $25,000 a month in shopping commissions when it first launched HSN and now is bringing in about $20,000 with both channels. The initial figures, he cautions, were mostly due to the novelty of the category and have little to do with the long-term prospects for home shopping revenue. Gill also plans a classified channel that it expects to generate up to $1 million anually.

Cablevision Industries, the MSO based in upstate Liberty, N.Y., says it's bringing in about $75,000 a month in commissions from sales to its 500,000 subscribers, with a line-up including QVC and HSN. Cablevision is one of the 66 companies which invested in The Fashion Channel because it is "differentiated," says Michael Egan, director of programming. "We're very sensitive to the glut of shopping channels—two broad-based channels are enough."

Egan says it's important to put home-shopping commissions in perspective. Cablevision's take is less than 1 percent of total revenues, and local avail advertising is bringing in more revenue in just about every Cablevision system where avails are sold. Avails are averaging about 4 percent of total revenue.

At Comcast Cable, QVC is the dominant home shopping player—not surprising given Comcast's major investment in the channel. Marilyn Russell, vice president of programming, says QVC is Comcast's play in the marketplace except in a few systems where HSN was inherited from the old owners. Russell says, however, that Comcast is challenged by the "mall concept" in home shopping, especially the new interactive players seeking to enter the competition. "We'll do tests with Fashion, Travel, CVN, HSN—we're intrigued with the concept," she comments.

Although most Comcast systems are too limited in channel capacity to test a multiple-channel idea, the MSO has a "couple" of 75-channel systems that should prove ideal for testing, Russell adds. She would not reveal commission figures, other than to say that revenue has been steadily increasing since QVC was launched in December of last year. ■

NOTES

■ **The Southern California Cable** Association presented awards in 11 categories recently in its Local Programming Awards ceremony. The winners include: News/Public Affairs Coverage, *Homeless on the Westside*, David Hunt, Daal Praderas and Tony Flynn producers, M.L. Media; Public Access: Informational, *Earth Alert*, John Bass, producer, M.L. Media; Public Access: Entertainment, *Wave Watch*, John Bass, producer, M.L. Media; Best Community Events Coverage, *Anti-Drug Billboard Contest*, Steve Polydoros, producer, M.L. Media; Best Informational Programming, *The Silent Cries of Pain*, Sharee Clark, producer, Times Mirror Cable of San Juan Capistrano; Best Local Advertising Commercial, *Cannons #2 Restaurant*, Mark Sucher, producer, Times Mirror Cable of San Juan Capistrano; Best Sports Event Coverage, *North Orange County Game of the Week*, Steve Arndt and Mike Ewing, producers, Comcast Cablevision, Fullerton; Best Series Programming, *Book Talk with Mary Ellen Ritz*, Mary Ellen Ritz, producer, Comcast Cablevision, Fullerton; Best Entertainment Programming, *The Affect: A Band at the Beginning*, Ned Augustenborg, producer, South Gate Cablevision; Best Cable Promotion, *Your Cable Just Got Better*, John McCarthy, producer, Falcon Communications, Alhambra system; and Overall Committment to Local Cable TV Programming, Doug Nielson, programming director; M.L. Media.

■ **The Discovery Channel will present** a week-long series of films dealing with AIDS. Included in that week is *On the Brink: An AIDS Chronicle*, premiering at 9 p.m. and 12:30 a.m. (ET) on Sunday, Sept. 13.

■ **September Highlights on A&E** include *The Last of the Mohicans*, Sept. 3, 8 p.m.; *The Challenge*, Sept. 5, 8 p.m.; *The Theban Plays: Oedipus the King*, Sept 10, 8:30 p.m. and *To Race the Wind*, Sept. 11, 8 p.m.

■ **Eleven cable television systems** in North Carolina have been recognized for excellence in customer service by the North Carolina Cable Television Association. Recipients of the second annual award were Cablevision of Greensboro, Cablevision of Raleigh and Tar River Communications Inc., Rocky Mount; Asheville Cablevision, Kinston Cable TV Inc., Southern Cablevision, Richlands, ATC-Greensboro Division and Essex Cable TV, Hendersonville; Greeville Cable TV Inc., Greeville, and Alert Cable TV of NC Inc., Cherry Point. Steve Effros, president of CATA, presented the awards.

■ **In September, The Learning** Channel offers viewers a series of half-hour programs designed to prepare them for college entrance examinations. The series is divided into three parts: *Math Review for SAT-PSAT*—Wednesday, Sept. 2, 11 a.m. (ET) and Friday, Sept. 4, 6:30 p.m. (ET); *Verbal Review for SAT-PSAT*—Wednesday, Sept. 9, 11 a.m. (ET) and Friday, Sept. 11, 6:30 p.m. (ET); and *Math and Verbal Review for the ACT*—Wednesday, Sept. 23, 11 a.m. (ET) and Friday, Sept. 25, 6:30 p.m. (ET).

■ **The National League of Cities** joined with the Arts & Entertainment to sponsor the network's second annual *CityVideos* cable documentary competition. *CityVideos* is an opportunity for cable operators and their communities to produce a five-minute videotape capturing the spirit of their cities. Entry forms can be obtained by writing to: A&E City Videos, P.O. Box 6618, New York, NY 1016- 6023.

Getting other half: An expensive and daunting challenge

New ideas, ventures needed to capture tough urban markets

By Virginia Munger Kahn

It's 1993. Cable penetration on a nationwide basis stands at 60 percent of all TV homes and 70 percent of homes passed. Using revenues the industry has generated in the five years since the 50 percent threshold was passed, cable operators and programmers have added at least two new broadbased basic channels, have more than doubled the number of addressable units in the field, and have put together the first of their joint bids for major sporting events—the World Series and the Super Bowl. It's a heady time for the industry.

But problems remain. The continuing fractionalization of the television audience is keeping ratings lower than many cable networks would like, and expenditures on programming and marketing are escalating faster than the industry anticipated.

A SPECIAL REPORT

That scenario is not hard to envision given current industry trends. The key will be in the industry's ability to raise penetration 2 percentage points a year over the next five years. Provided that the competitive environment does not change radically between now and then, that is, telephone companies are not allowed into the business and there are no technological breakthroughs that bypass the industry's distribution system, most operators and analysts say such a goal is well within the industry's reach.

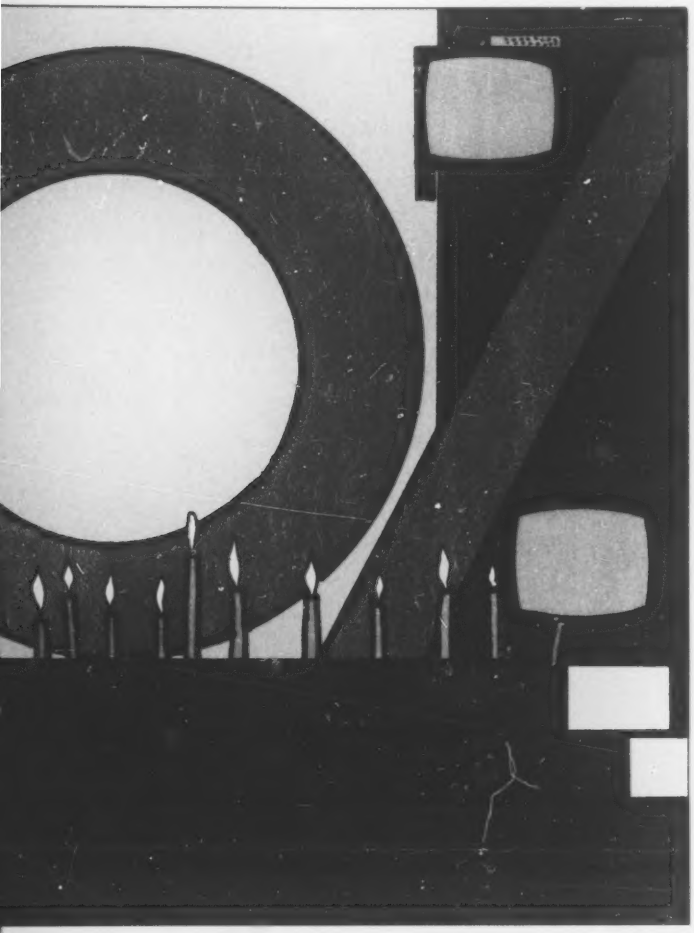
The primary tools the industry will use to attain that goal are better programming and marketing. Those two items encompass not only the development of new channels and new services, including pay-per-view, but also the willingness to spend substantial sums buying and promoting the product. While costs will be substantial, they are not expected to equal the $9 billion spent between 1980 and the end of 1984 during the intensive newbuild era.

The benefits of a focus on hiking penetration are manyfold. Not only do operators know that the more subscribers they sign up the more efficiently they are using the investment in their plant, but volume always is key to keeping prices down, which will be imperative to stave off competition. And the more revenues and cash flow the industry generates, the more money it will have to invest in new services and channel capacity, marketing and rebuilding plant to meet the demands of the future.

The result will be creation of an industry rivaling the broadcast networks for viewers and advertising dollars, that commands the attention of Hollywood and can lead the entertainment business into new areas of development. At that point, cable will be the mass medium that its investors and employees hope it will be.

How far into the nation's television households cable operators can push is the subject of much debate within the industry. In a recent report Dennis Leibowitz, media analyst at Donaldson, Lufkin & Jenrette, wrote, "total subscriber growth from (increasing penetration and construction) ought to be at least 5 percent annually for the foreseeable future compared with about 1.5 percent for total television households." Many MSOs already have targeted 70 percent to 80 percent as their penetration goal over the next few years.

Steven Dodge, chairman and CEO of American Cablesystems, says 80 percent should be achievable for his company over the next five to 10 years. He notes that many American



systems in Massachusetts, where there are many strong off-air stations, already have attained those levels and better.

American Television and Communications has set a 70 percent goal for itself by the end of 1993, up 14 percent from its current average penetration rate, while Warner Cable Communications President James Gray says that company's goal is 65 percent within the next few years. He, like many other operators, notes that Warner has many systems where penetration is already 80 percent and some have 90 percent penetration.

Jack Frazee, president and CEO at Centel, however, has the most optimistic outlook on the business. "(Penetration) will be on a par with other necessities like telephone and power. Ninety to 95 percent maybe."

Those types of numbers will not be achievable in all

Taking the long view: cable's success may provoke a fiber fight

Telcos eager to market test networks offering integrated voice, data, video

By Fred Dawson

"What a lovely thing to have to think about. It's like talking about cancer."

If you know the subject of the question that prompted this response from the president of a large MSO, chances are you're not psychic. Instead, you probably know such thinking is mainstream when it comes to cable industry perspective on the telcos' mounting desire to introduce the nation to what many believe is the inevitable next plateau in wideband communications, namely, integrated switched digital networks employing fiber optics technology.

But mainstream or not, such thinking is beginning to look risky in the context of the emergence of maximum choice as the norm in U.S. television culture. As the cable industry approaches the 50 percent penetration threshold, interest among outsiders in sharing in the bounty flowing to those who can supply television in accord with this new norm of public expectations is intensifying, with technological, business and regulatory dynamics fueling the incentive.

The rear-guard-action approach to coping with potential turf intrusions may not be enough if the chain of command currently manning the coaxial conduits doesn't want to be relegated to the role of middlemen marketing product delivered over other people's facilities.

Of course, with its long headstart over telcos, DBS providers or any other would-be intruders, the cable industry is secure in its market strength and asset value for many years to come, even if every competition-related nightmare eventually comes true.

But the pace of events has dramatically accelerated this year, lopping ever more months, if not years, off the leadtime operators have to exploit the advantages they enjoy in their exclusive domains.

A growing number of telcos, including independents as well as Bell Operating Companies, are getting involved with the construction and testing of all-fiber networks for delivery of narrowband and wideband services to the home. Well known are the Southern Bell all-fiber test now up and running in Hunter's Creek, Fla., and the proposed multisystem (copper twisted pair, coaxial cable and fiber) experiment of GTE Corp. in Cerritos, Calif.

Joining these, *CableVision* has just learned, will be tests planned by Southwestern Bell, Mountain Bell, Illinois Bell and Bell of Pennsylvania. And just approved by the Federal Communications Commission is another Southern Bell project at a second housing development, Heathrow, which, like Hunter's Creek, is a planned community under construction outside Orlando.

Continued on page 54

markets, however, especially the big cities. Dodge said that factoring in urban markets to his prediction of an 80 percent penetration rate nationwide would decrease that number by at least 5 percent to 10 percent. According to Gray, Warner has "set its sights on 50 percent" penetration in major markets.

Yet, it is in urban markets that the most opportunity seems to lie. Not only are penetration rates lower on the average, and therefore the potential is still great, but also those markets are the most valuable to advertisers and programmers, especially for pay-per-view.

Says Edward Hatch, vice president at Shearson Lehman Brothers: "Once you're at 65 or 70 percent in a large metropolitan area, a whole host of opportunities arises—advertising, pay-per-view, home shopping. Collectively, those become very meanful (to the industry's revenue base)."

Unlocking the potential

The key to unlocking that potential lies in the same areas as it does for the rest of the industry's marketplace—improved programming and promotion—although the urban market will demand specialized treatment. Dan Smith, vice president for marketing at Mile-Hi Cablevision in Denver, says those two goals will encompass the development of new programming in concert with better promotion of what the industry already offers. Since the urban market typically is characterized by two lifestyles—one "yuppie," the other poor—cable's approach to it must take two tacks.

Young, urban, two-earner households depend less on television than other typical demographic groups, Smith notes. To understand this demographic is to understand the meaning of the words "on demand." As such, the industry should emphasize such programming as CNN and the Weather Channel, which are updated on a 24-hour basis, and the compatibility of the movie channels with VCRs, says Smith. Pay-per-view is important for this demographic, especially if it is impulse.

Building closer relationships with community groups is key to tapping the non-affluent urban market demographic. Smith says the programming this group enjoys already is available on CBN, USA, the superstations and the pay services, which he said do particularly well among this demographic.

The result of raising penetration in urban markets like Denver, Dallas, Houston and Washington into the mid-40 percent range and above will be to improve the industry's overall chances of reaching 60 percent on a nationwide basis. According to Smith, Mile-Hi has increased penetration five points this year and projects another five point increase next year. Within two to three years, he projects penetration will be in the mid-40s, up from its current 29 percent level.

But the cost will be high, primarily because the marketing of cable services in urban areas will require buying advertising time on dominant broadcast stations and space in major newspapers. This will break cable's traditional marketing approach of emphasizing direct sales either door-to-door or through the mail.

Jack Frazee

In an effort to boost penetration, Mile-Hi will spend a quarter of a million dollars this fall on a six-week television campaign, representing 2,000 GRPs (Gross Ratings Points). "You'd have to be brain-dead or out of town to miss it," says Smith.

Mile-Hi is lucky because it and its parent corporations serve the entire Denver area. Many metropolitan markets are characterized by a patchwork of cable ownership, which makes buying TV and radio advertising time a large-scale effort in coordination, especially for increasingly important tune-in ads.

Such thinking has clearly been behind American Cablesystem's increasing presence in the Los Angeles market, to the point where the company now passes more than 940,000 homes there.

Better programming

"We must do everything possible to let our programming sources grow," said Centel's Frazee. "One thing we can't be afraid to do is to pay them for developing good programming."

The industry already has demonstrated a commitment to programming in its $575 million investment in Turner Broadcasting, infusions in several other programming services, its willingness to put together a consortium to bid on the NFL contract, and now its commitment to ESPN's $150 million NFL package.

In its historic 1985 report to the industry, Arthur D. Little estimated that operators would pay royalties to the pay TV networks of $1.5 billion in 1987, while satellite program fees would reach $220 million. According to Donald Schlosser, co-author of the report and now an executive at King Broadcasting, the latter number already is out-of-date. He estimated that fees to the basic networks will be closer to $500 million this year.

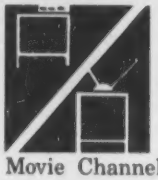
But while the cable networks may reap significant carriage fees, the broadcast networks still spend considerably more on programming—an estimated $5 billion this year, according to Kagan analyst Larry Gerbrandt, compared to more than $1.5 billion total for the cable networks. The costs of developing programming that can compete against the broadcasters then can be expected to be high and continually escalating.

Moreover, broadcasting's dominant position among advertisers—last year they spent $16.6 billion on radio and television compared to $735 million on cable television—should help insure the networks' ability to continue investing in high-profile programming.

While most advertising executives question whether cable ever will be able to compete for the mass audience shares now achieved by the broadcast networks, cable has a trump card in its dual revenue stream—advertising plus subscriber fees. This structural difference between the two industries already is apparent in the ability of cable networks to post cash flow and operating income equal to that of the three networks despite having far smaller advertising sales.

It is this characteristic of the industry that makes cable veterans like Bill Daniels predict that as the sporting world's needs for ever-increasing television revenues grows, cable will be in a superior position to bid on high-profile, high-cost events such as the Super Bowl and the World Series.

What is important now is for the industry to come up with ways by which high-profile programming can be produced at a cost-efficient price, says Warner Cable's Gray. It is possible operators could join together to form barter syndication-like networks. Through these networks, they could contract for programming and guarantee carriage in a set number of



homes.

A more immediate possibility is the transformation of existing channels, such as WTBS or perhaps The Movie Channel, to more high-profile programming. It is this concept that TCI President and CEO John Malone broached with Turner at the 1986 NCTA convention in Dallas. While ESPN has succeeded in acquiring such 'punch-through" programming for the industry, the idea has yet to take on channel-specific form.

The PPV challenge

Tied in with the industry's drive to improve programming is its effort to provide impulse pay-per-view, a service which Dodge, Frazee and many analysts see as vital to greatly increasing penetration. "The most important thing about pay-per-view is its importance to our customers," says Frazee. "It's the only way we can get big events to the public."

Katherine Marien, a long-time industry observer and now senior vice president at the Bank of New England, put it more bluntly. "Pay-per-view is going to have to be available (for the industry) to reach 70 percent."

The upfront costs of pay-per-view has stopped many operators from even considerating it. But, as Kaplan noted in his report, harware costs have been declining so that an addressable converter with an impulse PPV sidecar now is available for about $130. "As that price approaches about $100, we think operators will find it an increasingly irresistible hardware alternative for newbuilds, rebuilds, and ongoing replacements," he wrote.

By the end of this year, according to Kaplan, the industry is expected to have almost 15 million addressable households, or almost 27 percent of its subscriber base PPV accessible. Within three years that universe should rise to 24.4 million homes, or more than 56 percent of subscribers PPV capable.

The cost of implementing pay-per-view over the next five years is difficult to assess. Analysts note that addressible converters and two-way systems are bought and installed for reasons beyond their pay-per-view capability. On a revenue basis, however, Paul Kagan Associates estimates pay-per-view will account for $1 billion by 1993, up from this year's estimated $71 million.

While the $1 billion figure would constitute only a small percentage of the $20 billion in total cable revenues projected by Kagan by 1993, the value of pay-per-view lies in reigniting excitement in the business and attracting new subscribers, say operators.

"Turner said that we lost our queen when VCRs came along and I agree with that," says Dodge, referring to comments Turner made to *CableVision* this past winter regarding the softness in the pay television market. "Pay-per-view has the potential to be a locomotive like HBO was...that is, getting people to sign up for cable," Dodge says.

The industry's ability to convince Hollywood to provide films to pay-per-view on an earlier window than videocassettes has been viewed as a key goal for taking full advantage of impulse television.

At a recent Kagan seminar, Paramount executive Alan Cole-Ford stated that real excitement would be generated within movie studios and event promoters when the pay-per-view universe reached 10 million customers. At that point major studios would begin rethinking the windows on certain hit titles, he said.

> 'To be marching forward (into the future) on an adversarial footing (with Hollywood) is counter-productive.'
>
> —Steven Dodge

While there have been some signs the studios may soon be ready to consider such a move, operators still must convince the film industry that the revenues "are there" and that the splits on PPV may be renegotiated, according to Dodge.

At this point, however, the industry's relationship with Hollywood is at an all-time low, primarily as a result of the studios' increasing concern over the consolidation of ownership within the cable industry and what that means for its negotiating position *vis a vis* Hollywood.

Several operators expressed disappointment over cable's current state of war with Hollywood, especially considering the symbiotic economic relationship between the two businesses. Said Gray: "It's time to work to communicate togther." Said Dodge: "To be marching forward (into the future) on an adversarial footing is counter-productive."

Dodge and Gray stress the common ground the two industries have—and the benefits they can derive from depending on each other. "If you combine our distribution (capability) and our willingness to promote with their product and their promotion skills," you have a powerful forumula for success, Dodge suggests. "If our subscribers are happy, we make a lot of money. That money will flow to Hollywood," he notes.

The same cannot be said for cable's relationship with the broadcasters. There, competition between the two industries for viewers, advertising dollars and the best programming will make it increasingly likely thie two businesses will clash. While operators feel that broadcasters, unlike generals, will not simply fade away, they clearly are confident in cable's ability to compete successfully against the networks and independent stations.

One way the broadcast networks may confront the cable threat is to buy into the industry—primarily through its programmers. Under federal regulations, the networks cannot own cable systems, except on a minimal basis, and no one can own a system and television station in the same market. Those regulations certainly will be attacked.

NBC President Robert Wright intimated such an interest at the recent CTAM convention when he stated the industry will need help developing its increasingly expensive programming projects. Two years ago NBC was extremely interested in buying CNN and more recently Wright toyed with the idea of investing in the Turner operator consortium. The network also is thought to be eyeing the possibilities of an investment at the USA Network.

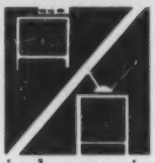
For broadcasters in general, cable's increasing penetration rate holds significant ramifications over the long term. The closer cable gets to universal acceptance, the less the broadcast networks need their affiliates and the $400 to $500 million a year they spend in affiliate fees.

But while an ATC executive told a group in New York a year ago that ABC was contemplating dropping its network status and changing over to a basic cable network, it is unlikely such a major restructuring of the network television market is close to consummation.

Promotion and service

"It will take more and more sophisticated marketing" for cable to reach 60 or 70 percent penetration, said media analyst Reidy. "It's a matter of selling what you've got more effectively."

Operators say they are prepared to foot the bill for increased marketing costs, but at least one analyst, Edward Hatch, predicted it probably will cost more than operators think. And while getting to the 60 percent and 65 percent



penetration levels may be within acceptable costs, he and other says, moving beyond those lofty rates of penetration may prove shockingly expensive.

But on the plus side, several analysts indicated that shifting demographics may play in cable's favor as it enters this new marketing era. As older consumers—a tough demographic to market to—pass away, they will be replaced by an increasingly large proportion of people who always have lived with cable television and view it as an accepted part of modern life.

Even though senior citizens, academic communities and urban areas are particularly difficult markets to penetrate, Gray and others say they must spend the money and energy necessary to bring these sectors of the country into the cable universe. "We have to do a better job of presenting a better case to those who have rejected us," says Gray. "It will require segmenting our markets. There is going to be a lot of innovative developments there, and they will have to be done at the local level."

An emphasis on local management also will be key to providing better customer service, say operators. "There's still a fair amount of sloppiness out there, and as a result a fair amount of consumer resistence," Dodge says.

The problem is a well-known one that has been discussed by the industry for several years now. Warner's Gray said his company has spent "literally millions of dollars" trying to improve customer services operations. While research shows the company is doing a better job, he acknowledges, "we just haven't told our customers."

'We have to do a better job of presenting a better case to those who have rejected us.'

—James Gray

Rebuilding plant

While the investments in increased marketing, better customer service, and even buying high-profile will be huge, most analysts are quick to note the costs of raising penetration will not match the investments the industry made in its plant during the late 1970s and the early 1980s. "Increasing penetration is more management intensive than capital intensive," notes Diane Kaufman, a general partner in Media Ventures LP.

What is important, according to John Reidy, is that prudent cable operators invest in marketing and programming to drive up penetration, which will result in higher revenues. "What you want is sustained revenue growth in conjunction with gradually increasing margins. That's what will make the business continuously successful," he said.

But the need to rebuild existing plant will prove expensive. Gray predicts that the cost of rebuilds "will be a very substantial demand" in the future.

As opposed to the cash costs of the building frenzy of the 1970s, rebuilds are being done on an ongoing basis, so that the peaks and valleys in capital commitments are beginning to flatten, and the industry now has a much higher subscriber base against which to amortize the cost.

According to Arthur D. Little's projections, the costs of newbuilds and rebuilds will remain relatively flat if not slightly down from 1987 through 1990 at below $1 billion a year. While the costs of installing and replacing converters will keep capital expenditures around a total $1.5 billion annually during this period, "total industry capital requirements during the rest of the decade will not approach levels experienced in the newbuild era of the early 1980s," the report said.

Even when capital commitments are expected to rise again in the early 1990s as rebuilding activity intensifies, the cable industry's increase in revenues and cash-generating ability will allow it to fund capital requirements internally, said the report.

The bottom line is that, as Barry Kaplan predicted, by 1990 the industry should be generating $5 billion a year in free cash flow available for debt service, new acquisitions, programming, marketing and rebuilding plant.

Analysts would like to see operators "stick to their knitting" by investing in their own businesses. Both Kaplan and Reidy stressed operators should not move into the production of programming or films. "The systems are the unregulated monopoly not the programming," says Kaplan. "Making movies is a different business," Reidy notes. "The attraction of (cable) is its highly predictable cash flows."

But, knowing operators intense interest in boosting the quality and quantity of high-profile programming, it will not be surprising to see them become more deeply involved in the programming business in their drive to move penetration rates through the next major breakthrough point. ■

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Bill Daniels says what 50 percent means from his perspective as one who helped get the industry there.

The downside 60
Cable's opponents are using 50 percent to sharpen their long knives as they intensify their rhetoric.

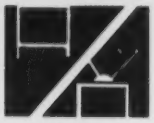
Madison Avenue's view 64
Advertising executives think 50 percent makes cable a better buy.

20%

DATE
FEBRUARY 1980
INDUSTRY REVENUES IN MILLIONS
2,602.7
OF SUBSCRIBERS
15,198,490
% OF TV HOMES PASSED
27.9%

SOURCE: NIELSEN, KAGAN

The exact point in time that cable hits 50 percent penetration is a moving target, but not so other benchmarks in the industry's history. Here and on succeeding pages, we present snapshots from the industry's scrapbook of development, beginning with what was at the time a noteworthy accomplishment—serving a fifth of all television homes.



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Discussions with project directors and corporate strategists at each of these telcos reveal they are all thinking along the same lines. The exception is GTE, which not only sees potential opportunities in wideband network construction but, owing to its freedom from constraints governing former entities of the Bell System, also plans aggressively to explore opportunities in development of new services.

The emerging consensus telco view in approaching these experiments is that very soon it will be financially feasible to build all-fiber, switched systems offering voice, data and video services to the home, if, and it's a major if, the video services can be counted on to deliver a significant share of the revenues going toward recoupment of capital costs.

Southern Bell puts the date by which it intends to be offering to build fiber networks for cable operators or people wanting to become operators at late next year or early 1989. Other telcos appear less certain of the timeframe, but those with tests planned as well as others who are seriously contemplating tests agree that now is not too soon to begin getting real market experience with delivery of services over fiber to the home.

As described by Karen Mangum, project manager for the Hunter's Creek fiber system, which now has about 60 customers, Southern Bell's view of its potential opportunities in wideband communications is typical, though more developed, of the thinking among telcos elsewhere. The company sees itself as being in the business of building telecommunications transport systems. It sees cable operators as service providers who could benefit from utilizing two-way switched fiber systems in the development and delivery of ever more sophisticated service options to the home.

Such systems, capitalizing on the long drop runs that are feasible with fiber, will allow dozens or even hundreds of homes to be served from one hub or switching point in the neighborhood. This architecture provides a big enough customer base per hub to cost-justify the installation of computerized switches that will permit each home an impulse ordering and point-to-point communication capability that could further revolutionize American telecommunications, ushering in such things as home banking, videophones and the home classroom.

Rather than waiting until it's feasible to replace its own narrowband networks on a metropolitan-wide basis within its service territories, Southern Bell wants to focus on CATV-related projects on a more limited scale, ala the planned communities it's already experimenting with or any other types of housing developments, including MDUs, that represent newbuild construction opportunities for the CATV industry.

The upshot of this strategy could well be that two or three years hence cable operators could be confronted with a growing demand among housing developers for state-of-the-art switched fiber systems. The Hobson's choice for cable operators unprepared to bid on construction off such systems could be between allowing the telco to do it or see the business go to some other service provider who has no qualms about telco ownership of the pipeline.

25%
DATE
FEBRUARY 1981
INDUSTRY REVENUES IN MILLIONS
3,716.9
OF SUBSCRIBERS
19,727,290
% OF TV HOMES PASSED
37.6%
SOURCE: NIELSEN, KAGAN

Taking an aggressive posture in pursuing new construction opportunities in CATV would be an interim step for the telcos in a much bigger agenda. Once telcos could demonstrate a demand for such systems and the services they can provide at the fringes of metropolitan regional growth, they would have created the budgetary justification for switching from copper pair lines to fiber on a region-wide basis.

This strategy of incrementally expanding into ever larger market segments with fiber to the home goes hand in hand with the telcos' rapid placement of fiber "backbone" trunk and feeder lines in their regional networks. Such lines often are laid with no immediate use in mind.

For example, Southern Bell and New York Telephone report they now routinely put in parallel fiber lines with every installation of copper trunk and feeder.

This process is about to be stepped up across the country in the wake of recommendations flowing from research at AT&T's Bell Labs and at Bell Communications Research (BellCore), the R&D entity set up after the AT&T divestiture to serve all components of the former Bell system.

BellCore reports a consensus among the seven regional holding companies on a fiber-based architecture that it claims will provide integrated data, voice and video service to the home at a cost of $2,000 per household. The design calls for one single-mode fiber drop per home delivering four digital channels at rates of 150 Mbit/sec.

For its part, AT&T has just rolled out a line of products dubbed "Fiberway" to provide telcos with a comprehensive systems approach to evolving from copper to fiber. The product line includes composite fiber/copper cables, all necessary passive and interface devices and the components necessary to get signals from switching points at hub sites into the home.

As a result of these developments, New York Telephone is implementing an evolution-to-fiber policy in Manhattan, and BellSouth, the regional holding company parent of Southern Bell, is considering installing fiber and copper together in all future residential and business connections throughout its territory starting next year, according to a company spokesman.

As the pace of events on the business and technology side of telco interest in wideband communications intensifies, much of the legal framework that shapes their activities is suddenly up for re-examination. But the question may not be whether new freedoms must be extended before telcos will venture further down the wideband highway.

It may well be that, to accomplish the ends outlined above, the telcos are very close to having all the freedom they need. In writing the Cable Communications Policy Act of 1984, Congress codified the FCC's so-called cross-ownership rules, prohibiting ownership of cable systems in non-rural operating territory, and further restricted telcos by forbidding them to act as providers of cable television services. The effect of the law has been to force telcos seeking waivers to build broadband systems to come to the FCC with a commitment for full or nearly full utilization of bandwidth by a single cable operator holding a franchise from the local community.

Since the telcos are not expressing an interest in providing cable services themselves, the only barrier to their strategies implicit in these rules is the upfront requirement that bandwidth be fully contracted for with a franchised cable operator. As long as this barrier stands, telcos would appear to be effectively barred from building cable

'It's a testament to our tenacity'

50% has a nice ring to it, but it's only halfway home in serving America

By Bill Daniels

We'll never know, of course, just who signed up for cable TV service sometime in the last few weeks to put our industry, nationally, over the "halfway" mark. An auto mechanic in Dallas, maybe, or a homemaker in North Augusta, Ga. Maybe a banking executive in one of New York City's newbuild boroughs.

Whoever it was, we've been looking for them a long time.

The fact that we found that benchmark home, made our pitch and got the sale means more than we in this fast-moving cable industry might realize just yet. Think about it: more than half of the 87.4 million television homes in America get their television programs on at least one set from a coaxial cable television system. As my friend Jim Mooney put it in a recent comment, cable television has become the primary means of television distribution in this country.

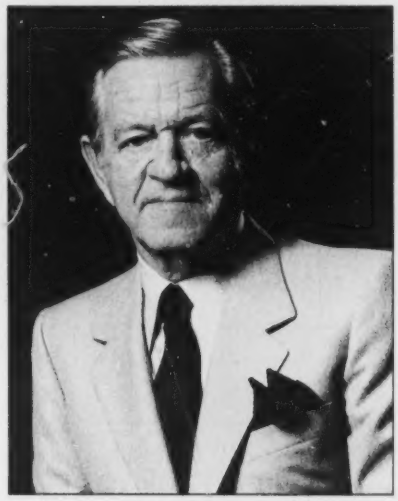
Half the homes in America, and we're still growing like mad. That kind of market penetration is the stuff of dreams for most consumer businesses. Think Lee Iacocca wouldn't like to have a shiny new Chrysler perched in the driveway of half the homes in the U.S.?

What's especially encouraging about the news is that we hit 50 percent while some of our country's biggest television markets aren't completely wired for cable. Entire communities or large blocks of neighborhoods remain unwired in New York City, Los Angeles, Chicago and Washington, D.C. When those markets fully come on line, their density of homes will fuel incremental percentage increases in the cable penetration equation.

Plainly, some of the razz-ma-tazz associated with our latest accomplishment as an industry is purely symbolic. As operators, we've done such a good job in *most* of our mature markets that we passed the 50-percent penetration level, on a local basis, some time ago. Take the example of Connecticut, the leading state as ranked by cable penetration. There, 67 percent of the homes with cable available do subscribe. That type of achievement demonstrates resolutely how we've captured the attention of the American public.

Indeed, there's ample reason to cheer.

Only four or five years ago our network programming services eagerly anticipated the day when A.C. Nielsen and the other researchers would confirm we'd reached a third of the homes in the U.S. That so-called "33-percent solution," as coined by former Young & Rubicam executive Bill Donnelley, was at that time regarded as a key



Bill Daniels is chairman of the board of Daniels and Associates. He currently serves on the board of directors of Cable TV Industries, a publicly held TV supply company headquartered in Los Angeles. He also serves on the board of directors of H.F. Ahmanson & Co., owner of Home Savings of America.

turning point in the ability of program networks to attract national advertisers in a big way. Well, attract they did.

So if 33 percent penetration was a milestone of sorts, what comes with 50 percent? Even more so, what happens when we edge that number up, nationally, to 60 or 70 percent?

We can gauge part of the answer on what our birds-eye perspective tells us about cable's presence in today's market. Take a look around your own neighborhood. That's us you see next to your local Bell company and power utility up on the pole, delivering video signals to most of the homes on the block. Do a little community polling. You'll find a legion of informed viewers who loyally watch CNN every day. I remember when Ted Turner, inaugurating CNN, said "When the world comes to an end, CNN will be there to cover it." I stood beside him at that moment, believed him then, and I believe him now. While you're out investigating, walk down to the local high school. Ask the students what was on TV last night. Even money says it was MTV, not NBC.

The bottom line: our hard work has created a deeply ingrained presence in the daily lives of a majority of Americans. It's a testament to our tenacity, against shackling regulation and fierce competition, that cable television to most Americans has come to be such a routine guest—like the daily newspaper, really—in homes across the country.

So much for the accolades. Let's not forget that a signpost we reached after more than 30 years of struggle—"the 50 percent solution," if you will—came about as a result of hard work and perseverence. We didn't get here by being lazy. Or cocky.

Yes, we're finally deregulated. But if we're to achieve that 70 percent in the next few years, we can't abuse our newfound freedoms. In every battle we've fought over the last 30 years, we've had two staunch allies: Wall Street and Main Street. If we allow ourselves to forget that, to take for granted the support of the financial community and the American public, then bank on it: we're in deep trouble.

Let's salute our latest achievement. It's a grand one, to be sure. Let's celebrate it and champion it and tell it to the world and let's not forget about it. But when that party's over, let's not rest on our proverbial laurels. Sure, 50 percent has a nice ring to it. But it's only halfway home. And right now, I sort of have a soft spot for the number 70. ■

Storm clouds gather in Washington as competitors seek political solutions

Hollywood, broadcasters sharpening their long knives on cable dominance issue

By John Wolfe

In the political arena, 50 percent penetration represents a double-edged sword for the cable industry. On the positive side, the symbolic milestone mirrors the industry's growing economic and political clout and, industry proponents claim, gives the business an increasingly sizeable constituency.

But the cable industry's growth and profitability have long-term implications for a host of public policy issues, and if reaching the long-awaited 50 percent threshold has a downside, it's on the policy front, industry observers caution. At the very least, the notion of more than half the nation's television homes wired for cable makes ideal rhetorical fodder for cable's opponents in Washington.

But more importantly, the 50 percent benchmark underscores how dramatically the relationships between cable, broadcasting and Hollywood have shifted, and in many political corners, it's cable that is perceived as having the upper hand. And many observers predict that Congress, spurred by the tangible evidence of cable's growing dominance, will sharpen its focus on cable-related policy issues.

Larry Irving, counsel to the House telecommunications subcommittee, which will hold "extensive" oversight hearings on the cable industry later this year, expects 50 percent penetration to help boost congressional interest in cable.

"The political implications mean that we will have to take a good, hard look at the competitive realities," Irving says. "We've got a playing field out there," Irving notes, "but no one knows the relative strength of the teams."

Symbolic impact

Industry officials and opponents alike maintain that the impact of 50 percent penetration on cable in Washington will be largely symbolic. (It certainly won't be as dramatic as it once might have been: a 1971 report on cable regulation from the White House's now-defunct Office of Telecommunications Policy recommended that the industry be regulated as a common carrier when penetration reached 50 percent.)

James Mooney

National Cable Television Association President James Mooney asserts that the 50 percent landmark represents "both a tangible event and a symbol of cable reaching critical mass as a primary television medium." But one political impact, Mooney says, will be to "add another line of rhetoric to the diatribe" by the industry's opponents.

As cable gains critical mass, its competitors become "more and more nervous," Mooney observes. As a result, those competitors will "explore political solutions to their competitive problems," he claims.

Cable's competitors "have assumed we were this powerful for some time," adds Steve Effros, president of the Community Antenna Television Association. "Now," Effros says, "it just flows out of the mouth a little easier."

The Association of Independent Television Stations expresses it differently. "It's been clear for awhile that cable has gained the upper hand, thanks to Congress, on everyone else in the television marketplace," asserts INTV President Preston Padden. Congress, he claims, "has grave reservations about what it's created with this marginally regulated monopoly."

Jack Valenti, president of the Motion Picture Association of America, predicts that cable's increasing power "will play in the congressional arena." Penetration "is going to go a lot higher," he says. "If you look into the future," Valenti continues, "Congress knows where that curve is going. It's not going down."

Valenti puts cable penetration "as high as 70 percent" by the end of the decade, when more of the major urban markets will be wired.

Competitive friction

As cable penetration increases, many observers note, so too does the competitive friction between cable and competing industries. That appears particularly evident in cable's relationship with the broadcasting community, which now must rely on cable to reach nearly half of the nation's television households.

"If half of the homes in this country get their television via cable, if you're a broadcaster and not on cable, you might as well be off the air for that 50 percent," claims Baryn Futa, vice president and general counsel for the National Association of Public Television Stations. "That," he adds, "is the hard reality of 50 percent."

Futa claims that the 50 percent benchmark has "critical political implications" for the cable industry. "They are in control of what video product gets into the home," he says. "That's incredible power."

Futa also notes that the broadcasting industry, when it amassed similar market power, was burdened with public interest responsibilities.

"Who's to say that cable shouldn't have those same obligations?" he asks.

With cable penetration growing, continued must-carry rules become crucial, many broadcast industry executives maintain. The Federal Communications Commission's interim rules, already subject to constitutional challenge by a group of cable operators, expire in five years. But key Congressional leaders have expressed a desire to remove the sunset.

Irving terms must-carry one of the policy areas "most impacted" by 50 percent penetration. "If you're not gaining carriage, you're just not there in cable homes," Irving says. "That's a public policy question we have to look at."

Indeed, broadcasting leaders note that the industry has sought must-carry rules with continually increasing penetration in mind. Cable's potential growth "is one of the reasons we fought so hard for the must-carry compromise," observes National Association of Broadcasters President Eddie Fritts. "It's very important that local broadcasters be afforded carriage on local cable systems," Fritts says. Then, he adds, "let them compete" with cable networks for viewers.

But the larger issue, Fritts maintains, is how cable will be treated in the legislative and regulatory arenas. "There is a whole range of policy issues which will be impacted by a changing mood in Congress," Fritts predicts. And apparently, that shifting perception is that the cable industry can no more be viewed as an upstart competing against successful entrenched industries.

"Now, there won't be any underdogs," states Joel Chaseman, president of Post-Newsweek Stations and chairman of the Television Operators Caucus. As a "contending force" with broadcasting, Chaseman says, cable can't expect to enjoy the same level of success in Washington.

For example, many observers expect that cable's growing dominance will make it more difficult for the industry to argue that it still needs its compulsory license to import distant broadcast signals. In Congress, "there is going to be a hard look at anything that smacks of government subsidy or a tilted playing field," Futa says.

"Cable has the benefits of a regime premised on cable having an underdog status," agrees Tom Rogers, NBC vice president, policy planning and business development, and former chief counsel to the House telecommunications subcommittee. "That status," he says, "is no longer valid."

"Clearly, it's hard to suggest that (beneficial legislation) is needed as cable crosses over the 50-yard line," adds Tom Herwitz, Fox Television Stations vice president of corporate and legal affairs. "Where cable market power is concerned," says Herwitz, continuing his football analogy, "it's goal to go from the one yard line."

Herwitz also notes that the broadcasting industry became concerned with cable's increased market power long before it reached half of all TV households. "I don't think it takes 50 percent for you to start worrying," he opines. "I think it's a much smaller number."

In addition to must-carry, cable's growth as represented by the 50 percent milestone also will have an impact for the broadcasting and production communities on the related issues of

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Pictured above, left to right, Bill James, Tim David, Bruce Godfrey, Bruce Dickinson and Jay Busch.
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the compulsory license and syndicated exclusivity. Herwitz, for example, expects increased cable penetration to help support the argument that syndex protection for broadcasters should be reimposed.

Herwitz notes that the cable industry has long championed the need for cable-only programming aimed at attracting and retaining subscribers. "Certainly, the foundation for such a venture grows with the amount of penetration," he says. The flip side, Herwitz asserts, is that cable should honor the broadcasting industry's right to exclusivity.

According to Rogers, the increased revenues to operators which flow from increased penetration is equally as important as the penetration percentage itself. "Cable has an enormous amount of economic leverage in the marketplace," he observes. The key issue, Rogers adds, is whether cable's economic clout "warrants access to programming on a below-market rate," and cable needs to "fess up and address that issue very, very quickly."

Fifty percent penetration, Rogers stresses, underscores the importance of exclusivity to broadcasters. As penetration rises and broadcasters must compete against more and more channels for viewers, the ability for a local broadcaster to differentiate its programming becomes crucial, he explains.

"Beat the clock" mentality

Concentration of ownership also is expected to emerge as a major policy issue, spurred both by increased cable penetration and what some observers call a "beat the clock" mentality which has the major multiple system operators acquiring systems at a record clip, before Congress steps in to slow the trend.

MPAA's Jack Valenti has led the charge against continued cable growth. Over the past year, Valenti claims, "Congress and others in the communications business have become much more aware of the menace of an unregulated monopoly being dominated by one or two companies." That "menace," Valenti says, becomes more evident as cable penetration moves beyond 50 percent.

MPAA claims that 46 percent of all cable subscribers are directly or indirectly controlled by five companies. Two major MSO's—ATC and TCI—control 34 percent of all subs, with TCI alone controlling 22 percent of the cable universe, MPAA asserts.

Congress, Valenti predicts, "is going to recognize that when you first deal with a monopoly, then let one or two companies be the prime dominant force in a gathering of monopolies, then where does the consumer take his grievances?" Congressional interest in cable concentration, Valenti says, will be bolstered to the extent that cable's penetration curve extends beyond 50 percent.

dVertical integration by major MSOs investing in programming services is "inextricably linked" with concentration of system ownership, Valenti adds. Increased cable penetration, he says, "is going to call for some harness on how big any one company can be, and whether or not you can be a giant MSO controlling one-third of all subscribers then program for those subscribers." Those issues "are becoming very relevant," Valenti states, "and they become more relevant as cable gets larger."

It's also an issue which has piqued the interest of the broadcasting community. "There are those who are concerned that cable has the privilege of controlling its delivery system and the information which is delivered as well," NAB's Fritts maintains. "A lot of people are watching that with raised eyebrows," he adds, "and we will continue watching it as well."

30%
DATE
FEBRUARY 1982
INDUSTRY REVENUES IN MILLIONS
5,097.2
OF SUBSCRIBERS
23,726,220
% OF TV HOMES PASSED
46.2%
SOURCE: NIELSEN, KAGAN

Industry observers point out that cable's growing economic clout may help the cause of those such as the backyard dish industry, SMATV and MMDS operators, who would like to compete with cable for the delivery of video product. The House telecommunications subcommittee's Irving echoes that point.

"Some argue that cable is at 50 percent penetration because the government helped," Irving says. "Other industries say they now need that same help to compete with cable."

Irving also cautions that cable's growing strength may also be a factor in whether telephone companies are ever able to enter the video distribution business. Some legislators, Irving notes, are becoming sympathetic to those who argue that the cable industry is "strong enough now to withstand competition" from telcos.

"As cable gets bigger and has more economic clout, then the arguments that the industry used to levy against telcos coming in and taking over the cable business are less valid," agrees NBC's Rogers. But the "conceptual" problems many legislators have with unleashing the telcos into the information services business are not lessened by cable's increasing reach, he adds.

Emphasis on behavior

Cable industry leaders concede that at the very least, the positive symbolic aspects of finally reaching 50 percent penetration also will add to an increased level of rhetoric among cable's competitors. But they also stress that responsible behavior by operators in the marketplace, not politics, will be the key to fending off unwanted government intrusion into the business.

"In the end, the politics, the statistics and the economists' theories aren't the things that swing the balance," NCTA's Mooney stresses. The "behavioral characteristics" of the industry, he predicts, will have the most influence on Capitol Hill.

NCTA Chairman Jim Cownie, president of Heritage's Telecommunications Group, expects the cable industry will "want to accept a greater sense of responsibility" as penetration crosses the 50 percent threshold. That responsibility includes being "especially committed to serving the consumer interest," he adds.

Cownie cites two keys toward demonstrating that responsibility: speeding up the industry's attack on "inferior" customer service; and demonstrating "continued restraint" on price increases.

Mooney, too, urged operators to "exercise great care" in the marketplace. "We from time to time run the danger of shooting ourselves in the foot," Mooney frankly observes. "We don't need any unnecessary controversies."

Meanwhile, the message the industry will attempt to convey to Congress and others is that cable has improved television. And most policymakers are "happy to see cable succeeding," Mooney claims, since it vindicates their decision to "set cable free" by enacting the 1984 Cable Act.

"The primary thing cable has going for it in the political world," Mooney asserts, "is that cable brings something new and different to the TV landscape." ■

It's back to the future in some markets that have achieved near-universal service

While the cable industry as a whole places much economic and symbolic significance on reaching the 50 percent benchmark, that rate would represent a marketplace failure of enormous proportions for a substantial chunk of the business.

Many cable systems, particularly those which were built to bring broadcast stations into underserved areas, passed the 50 percent milestone over a decade ago. Now, the nation's most heavily penetrated systems serve more than 80 percent of their markets—a business proposition which carries with it both luxuries and marketing challenges, according to executives at some of those systems.

"It's a ball," enthuses Mark Matthews about operating in Palm Springs, Calif., the nation's most heavily penetrated television market. Matthews is general manager of Warner Cable of Palm Springs, which has about 27,000 subscribers and a penetration rate of 84 percent.

Matthews offers a candid assessment of why cable is so successful in the Palm Springs area: "There are two mountain ranges between us and Los Angeles."

The Palm Springs system is typical of those cable systems which enjoy unusually high market saturation. "It's a small, old system," Matthews says.

With the market so saturated, Matthews says his company can shift its marketing focus away from signing basic subscribers and toward selling pay services, which has been difficult in Palm Springs because of the high number of resort units.

But Matthews also stresses that with so much of the community dependent on cable for its television, good service is a priority. "It's critically important. If the system goes down, we've got a real problem."

Dave Woodrow, vice president and general manager of Cox Cable of Santa Barbara, also emphasizes the importance of customer relations. Nielsen puts the cable penetration in the Santa Barbara-Santa Maria-San Luis Obispo TV market at 82.2 percent, which puts the market second behind Palm Springs. Cox's Santa Barbara system, with 57,000 subscribers, has a 76 percent penetration rate.

But Woodrow notes that a heavily penetrated market does not translate into a captive market. "The focus we have is that the key, whether we're heavily saturated or not, is to be able to give the consumers what they want," he says.

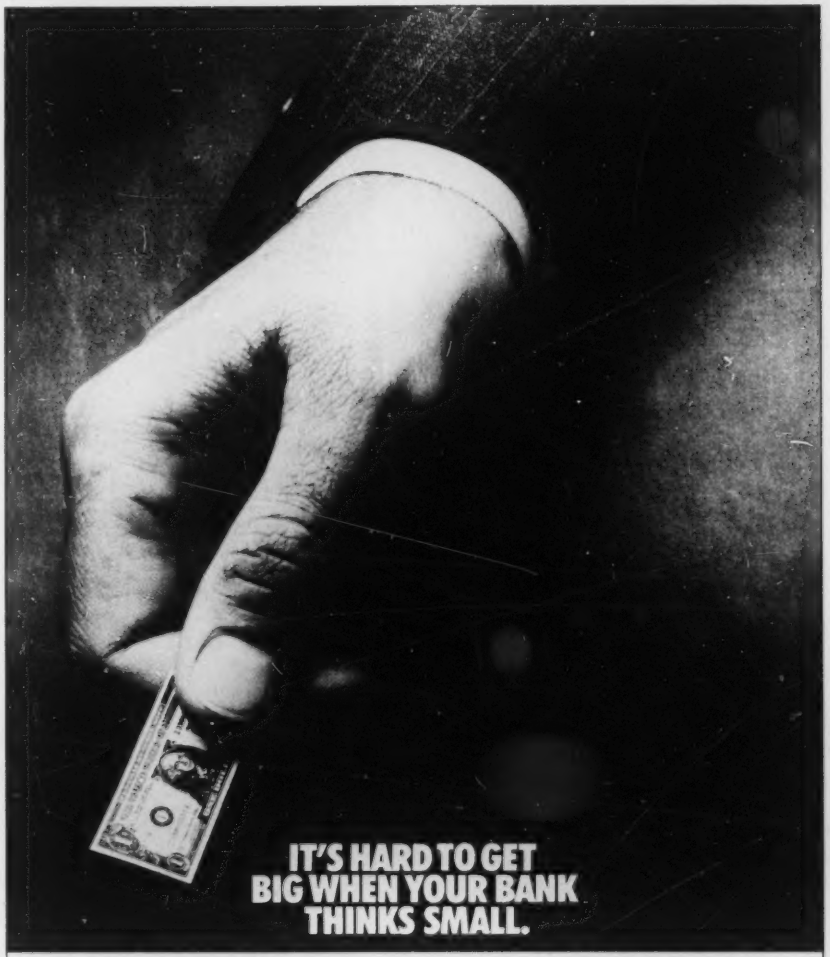
That philosophy becomes even more important with a rate increase pending later this year. In a saturated market, "you have to push up the basic rates" for financial growth, Woodrow notes. In return, "we have to continue, as an obsession, our focus on the consumer."

Increased revenues from basic are crucial largely because of the difficulty of marketing high-priced pay channels in Santa Barbara, Woodrow says. A wide majority of Cox's subscribers signed on to receive Los Angeles broadcast stations, and "that's really all they want," he explains.

Pay penetration at the Santa Barbara system stands at about 50 percent. Woodrow concedes that it's been "hard to cost-effectively push pays," but expects that with pay prices lowered as basic rates rise, pay penetration will gradually increase.

The situation necessitates cost control and "being smarter in running our business," Woodrow notes. For example, Cox does not have a direct sales force. Telemarketing is more cost-efficient, according to Woodrow.

—John Wolfe



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CAB will 'make quite a do about' numbers in fall

Despite industry's subscriber gains, audiences, ads still seen in broadcast

By John Motavalli

Despite the gains cable has made against broadcasters in audience shares, advertising agencies and media analysts caution that the three networks and independent stations still command much more of a mass audience, and will continue to do so for the forseeable future. Advertisers and agencies wanting to reach the big numbers are still going to be looking first to broadcasting, although they will be taking cable more and more seriously.

Opinion is divided as to whether the major cable networks ever will reach audiences anywhere near as large as ABC, CBS and NBC have long enjoyed. "It's not a given that cable will ever reach 70 or 80 percent penetration," says Robert Watson, corporate media director at AT&T.

BBDO Worldwide's Arnie Semsky, executive vice president of media programming services, says that his agency predicts that cable will reach 60 percent penetration by 1990, a slight devaluation of an earlier prediction, mainly caused by the slow progress in wiring major markets such as New York City. He said long-term prospects are hard to project because important questions remain unanswered. "The biggest factor will be the distribution system—it could all be done by telephone cable," he notes, a reference to the extemely iffy prospect of telephone fiber optic technology in the cable marketplace.

Another BBDO executive, Bill Wiener, senior vice president of the agency's video development group, says cable might be well advised to pitch agencies on how it is going to reach traditional cable hold-outs. "The critical issue is that cable is available to three-quarters of U.S. households now," he notes. "Rather than blue-sky penetration figures, someone should address what can be done about the high rejection rate among homes that already have access to it."

Bullish projections

Despite such cautionary notes, agencies and analysts have been making bullish projections on cable growth recently. In an extremely upbeat report bannering the news that "cable is no longer broadcast's stepchild," the DFS Dorland Worldwide agency noted that cable now has a presence in all 213 television ADI's. "Ratings on cable may still be small, given the sheer number of networks competing for their share of the viewing pie, but the overall growth pattern can no longer be denied." Cable represents "a more efficient time buy than nighttime broadcast network, by as much as 40 to 60 percent," the report stated. "Improved programming may result in increased share of dollars for cable in the coming year, but not at higher CPM's."

35%
DATE
NOVEMBER 1982
INDUSTRY REVENUES IN MILLIONS
5,097.2
OF SUBSCRIBERS
29,340,570
% OF TV HOMES PASSED
46.2%
SOURCE: NIELSEN, KAGAN

Media analyst Dennis Leibowitz of Donaldson, Lufkin & Jenrette Securities recently released a report, "Cable Advertising Profit: The Promise is Realized," which observes that in 1984 only MTV was making a profit, while Nickelodeon was at break-even. Today, cable channels like Capital Cities/ABC's ESPN are so profitable that, at current multiples of cash flow, the all-sports network is worth about $1 billion, about the same as the ABC Television Network itself.

Leibowitz projects that cable penetration will grow at about 5 percent "for the forseeable future" (Nielsen says it grew about 4 percent between July 1986 and July 1987). Buoyed by this growth rate and the attendant lift in subscriber fees, he reports, the networks owned by Viacom, Turner Broadcasting and Capital Cities/ABC will have a pretax cash flow of well over $200 million this year, and that all ad-supported networks would generate about $250 million in operating income. He contrasted this with the three networks, which had operating income of about $270 million last year, a profit margin of about 4 percent. Add in revenue from home shopping, he says, and cable networks actually are more profitable than the three networks. Cable network operating margins "generally exceed" 20 percent of sales, he noted.

Paul Kagan Associates projects that cable advertising will generate about $1.142 billion this year, up from about $930 million last year, a growth rate of about 10 percent. This is still peanuts compared to the $8.6 billion the three networks took in last year, but the gap is narrowing, especially because the networks' advertising revenue growth rate was at a little over 3 percent last year.

As penetration increases, local avail advertising becomes more and more important, fueled by the growth of regional interconnects. BBDO's Wiener observes that local cable advertising is growing by 20 percent annually as opposed to 10 percent for national billings.

The Cabletelevision Advertising Bureau long has sought to persuade agencies that cable deserves a greater percentage of advertising dollars than the 8 or 9 percent of total network television billings that the important

agencies generally allocate to it. CAB also notes that cable ad rates are generally only about 60 percent of traditional broadcasters, and that they sell only about 60 percent of total inventory, compared to near sell-out levels at the networks. One estimate by a McCann Erickson executive, Bob Coen, has cable accounting for 11 percent of the audience but only 6 percent of national television advertising expenditures.

According to CAB President Bob Alter, the 50 percent figure gives CAB a strong reason for a major new push to agencies. "CAB plans a major promotion directed to the industry this fall, a coordinated effort involving the cable networks," he says. "We intend to make quite a do about it. When you're in more than half the households in the country, each share point means a lot."

40%

DATE
NOVEMBER 1983
INDUSTRY REVENUES IN MILLIONS
6,511.6
OF SUBSCRIBERS
34,113,790
% OF TV HOMES PASSED
47.3%

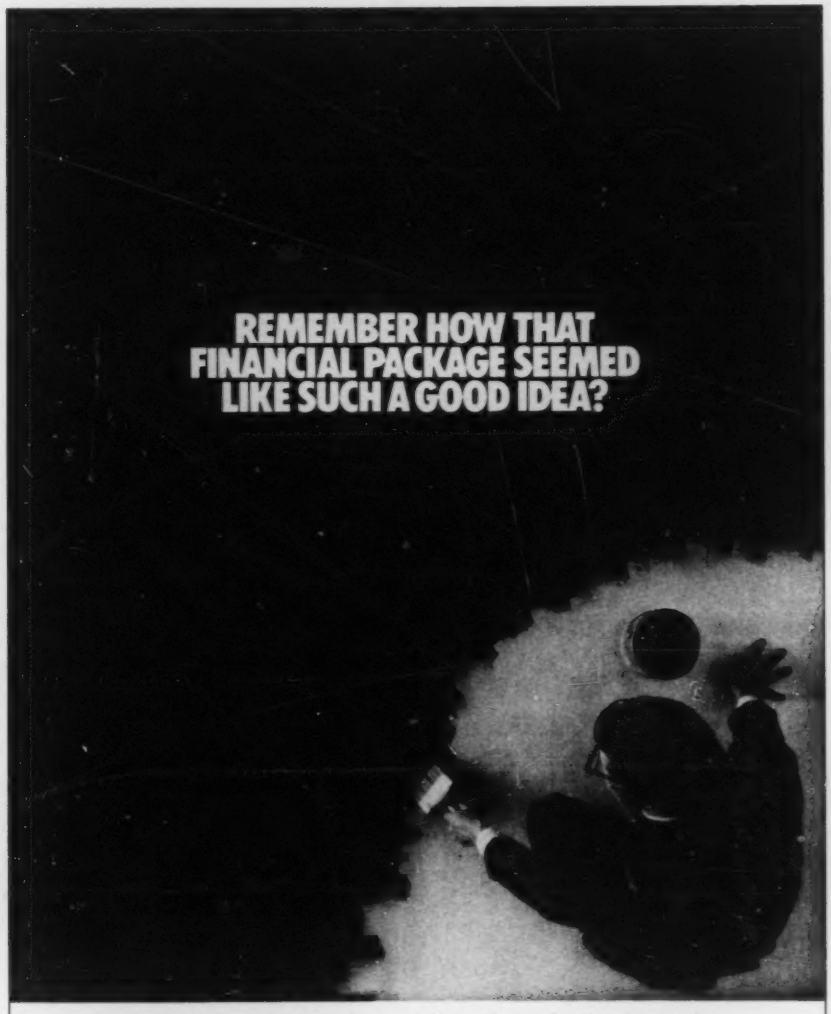
SOURCE: NIELSEN, KAGAN

CAB estimates that, in comparing the first six months of 1987 against the first half of 1986, cable satellite networks gained household delivery of more than 1 million in some dayparts—1.01 million households in early fringe, for example. In that daypart in the same time period, broadcast affiliates lost 623,000 homes.

Advertising agencies and their clients acknowledge that such figures are important, but they caution that cable networks have not as a group posted any significant gains in ratings numbers in recent years, the result of a cable dial crowded with almost 50 separate channels as well as competition from independent stations. So while cable as a category is reaching more viewers, individual networks are not necessarily doing so, even with larger subscriber bases.

AT&T's Watson says the 50 percent figure is not vitally significant in figuring his media allocations. "Whether it's 47 percent or 53 percent doesn't make much difference," he cautions. "It's been *slowly* growing to 50 percent, and you should remember that even with syndication we can reach 80 percent coverage of the United States. We do use cable because it reaches a select target audience.

While cable's higher penetration mark means the industry is "coming closer and closer to maximizing its reach," cable's audience is still "geographically scattered," notes Joel Segal, executive vice president at Ted Bates Worldwide. His agency now denotes about 9 percent of its network TV billings for cable, and Segal sees that percentage inching up fairly slowly as cable's numbers improve. ■



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Other benchmarks already have made lenders bullish on cable

Buttoned-down Wall Street cool towards watershed penetration mark

By Virginia Munger Kahn

Amid all the excitement generated by the industry's passing of the 50 percent penetration mark, the financial community is taking a decidely low-key approach to the event. For those men and women who raise capital and lend money to the cable industry, the key benchmarks for their consideration already have been hit—the passage of the deregulation bill, the drop in interest rates, the recognition of the cable industry as a cash flow business instead of an earnings-driven business, and most recently, the sale of cable systems for more than $2,000 per subscriber.

In fact, as is often the case with benchmarks, the significance of this event lies more in what it says about the fundamentals of the business and its trends than in the event itself. As numerous financial analysts and bankers noted, the 50 percent number is just one more indication of the continuing financial strength of the business and the continuing upward trends not only in penetration but also in cash flows, cash flow margins, revenues, and many other financial indices.

When it comes to more immediate implications, viewership and advertising probably are the areas most affected by the industry's passage of 50 percent penetration nationwide. "It is probably best put in perspective of TV network viewership," says Edward Hatch, vice president at Shearson Lehman Brothers. The more people subscribe to cable, the more viewers the industry can deliver, the more competitive it is with the broadcasters. "It's in ad revenues that the meaning comes," Hatch added, although he cautioned the industry is far from fulfilling its potential in that sphere.

The message the industry now can deliver to the advertising community, and to the consuming public, is that cable television is a mass medium and that it is here to stay.

That perception of cable television as part and parcel of the mass culture likely will help push penetration up even further. "It's more of a psychological thing," says Barry Kaplan, media analyst at Goldman, Sachs. Now that more than 50 percent of the people in America receive cable television, "a herd instinct" takes over, says Kaplan. It becomes unfashionable *not* to have cable.

That perception of cable as firmly established within the television culture also will spill over into the financial community, despite its reluctance to admit being able to be swayed by such events. An investment officer at Teachers Insurance and Annuity Association, a major source of financing for the industry, notes that while his company has viewed cable television as a legitimate business for a while, passing 50 percent penetration will make it much more difficult for alternative technologies to compete against the industry, thereby adding to the perception of cable's stability.

45%	
DATE	NOVEMBER 1985
INDUSTRY REVENUES IN MILLIONS	9,106.7
# OF SUBSCRIBERS	38,673,270
% OF TV HOMES PASSED	47.3%

SOURCE: NIELSEN, KAGAN

Keeping the competition at bay

In recent months cable operators often have said that increased penetration—a dominant position in the marketplace—is key to staving off competing technologies. Not only is the first into a market always in a superior position *vis a vis* the competition, but the bigger the subscriber base, the more cost-efficient the service will be, and the more likely rates can be held at reasonable levels.

For most cable operators, moving above 50 percent means having better control over their destiny. Not only will it help keep the competition off-balance, but the more subscribers the industry signs up, the more revenues it generates. The more revenues and cash flow it generates, the more it can spend on programming and marketing; and the more it can spend on those two items, the more it will control its destiny, for it is programming and marketing that are viewed as the keys to future penetration increases and the future success of the industry.

'If we had to pick one target (for the future) that's it," Bernard Gallagher, treasurer at Comcast Corp., said in referring to increasing penetration. "Everything else will fall from that," he said.

While there is no question that increasing penetration is key to the future of the business, the financial community finds little use for a figure such as *nationwide* penetration. As many observers noted, that figure includes urban areas that have not been wired yet, newbuilds that have not been marketed yet, and areas that never will be wired.

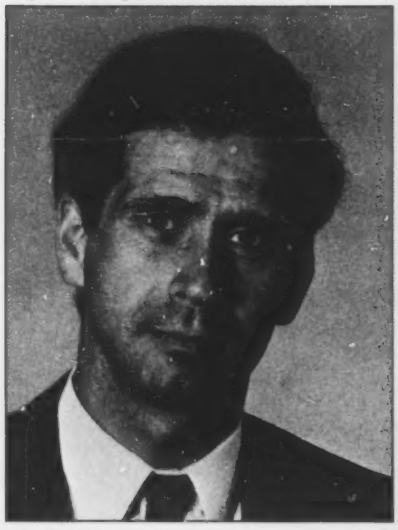
When assessing companywide or system performance, in making a decision on the value of a company or a system, those areas skew the numbers downward. Most MSOs turn in penetration rates above 50 percent, with the majors turning in rates of 55 or 56 percent regularly Many have systems with 60 percent or 70 percent penetration rates. Their ability to move penetration up from those levels cannot be compared to the nationwide level.

More indicative of the performance of a company in managing its systems is penetration as a percentage of homes passed, said industry observers. In that case, the top 60 cable operators boast a

56.8 percent penetration rate, according to Paul Kagan Associates.

The importance of increasing system penetration lies in the direct effect that has on increasing revenues, cash flows, and cash flow margins. "There is nothing more efficient than increasing penetration," notes one investment banker at a major Wall Street firm. "A new customer just falls right to the bottom line."

At what penetration point that happens, however, is highly variable, depending on the system's or company's financing, its rate structure, whether the system was bought or built, how long ago it was acquired or constructed, the percentage of pay penetration and many other variables. As a rule, however, most of the financial community can agree with the concept that the higher the penetration rate, the more



Ed Hatch

revenue falls to the bottom line.

The caveat is that this is not necessarily the case in systems where penetration has plateaued at a high level. The cost of moving that rate up may be higher than in other systems, notes Tom Feige, vice president for the eastern group at American Television and Communications.

Nevertheless, cable is unique in the amount of operating leverage it has, said the investment officer at Teachers. Each incremental increase in penetration can mean double that increment in cash flow, noted Kaplan in a report on the industry issued last February. "Arguably, a 5 percent increase in subscribers from improved penetration might result in a 10 percent increase in operating cash flow," he wrote.

The reason for its high operating leverage is the relatively fixed nature of its costs once the initial capital investment in building the system has been made. Most newbuilds these days become cash flow positive once they hit 30 to 35 percent penetration, notes Shearson's Hatch. Beyond that, things can really start to improve. "There's nothing magical about 50 percent," said Kaplan. "Once the thing is built, that's when the benefits start."

Those figures, however, do not necessarily apply to systems that have been acquired recently. In those cases, the need to rebuild, financing costs, and other considerations play an important role in determining at what penetration point the system starts taking out substantial amounts of money.

The bottom line is that today most investment advisers expect cable companies to do better than 50 percent penetration. "You're really not doing a very good job if you're just at 50 percent," said one investment banker. Moreover, if the system is penetrated

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between 50 and 60 percent, it should be generating plenty of cash flow.

If the financial community sees any immediate benefit from the passage of 50 percent penetration nationwide, it is in the industry's ability to use that excess cash flow to leverage up their companies, thereby adding value, and to reach the critical mass whereby ancillary revenue sources, such as pay-per-view, home shopping, and advertising, can be developed. John Reidy, long-time media analyst and industry observer at Drexel Burnham Lambert, notes that as the industry passes into higher penetration territory, the potential for even more new services becomes that much greater.

The industry already has demonstrated the financial clout an increasingly large base of subscribers can provide for improving programming. The winning of the NFL contract is the first step in a process that many industry observers believe ultimately will end with bids for the Super Bowl and the World Series.

At least a few industry analysts said attainment of the 50 percent penetration mark testifies to the increased attractiveness of cable programming, improvements in marketing and customer service, and its inculcation into the mass culture as "television." If the financial community is uninterested in the 50 percent benchmark, notes Fred Smith, managing director at First Boston Corp., it should at least pay attention to what drove the industry to that level in the first place.

What is significant for the fundamentals of the business today is that basic programming is driving the business. Since cable operators keep far more of the revenues they generate from basic programming, increased levels of penetration mean increased potential for margin improvements.

Benchmarks

What have become far more important benchmarks for the financial community than passage of 50 percent penetration have been the events of the last two years—the end of the intensive franchising and newbuild phase, passage of the Cable Act, the decline in interest rates, the shift in corporate America from valuing companies on the basis of earnings to cash flow. All these factors have made cable television highly attractive to financiers, and the benchmark on subscribers could hardly add more lustre to the business, they said.

'It's pretty damned well established with the investment community already," said Reidy. "Systems are trading for 14 times cash flow and the (public) market is valuing them at 60 to 85 percent of that," he said. While he notes that the people who invest in cable are a small part of the total investment community, he said it would take much more—primarily a heavy emphasis on earnings—than 50 percent penetration to attract that larger group of investors to the industry. Moreover, as Diane Kaufman, a former executive with Mutual of New York and now a partner in her own firm, Media Ventures LP, notes, "the business has so much capital attracted to it already, they hardly know what to do with it."

Comcast's Gallagher summed up the view of many financial executives when he noted, "Fifty percent itself is not significant. It's not a goal or plateau. What it is is a stepping stone, or a progress mark to some higher level of penetration."

How operators get to that next level is the big question for the next five years. ■

NOTES

Financial/Stocks

TCI reports second quarter earnings

DENVER—Tele-Communications Inc. reported the company's revenues increased 144.1 percent and 146.9 percent for the three months and the six months ended June 30, 1987, respectively, over amounts reported for the corresponding periods in 1986.

Revenues for the three month period increased from $161,624,000 to $394,488,000 and revenues for the six month period increased from $312,178,000 to $770,712,000 over the same period in 1986.

Net earnings for the three month period were $25,958,000 compared to net earnings of $51,641,000 for the same period in 1986. Net earnings of $43,345,000 for the six month period compared to net earnings of $54,083,000 for the same period in 1986. Earnings amounted to 15 cents per share for the current three month period and 26 cents per share for the six month period. The decrease in net earnings for this year has been attributed to decreased gains on sales of assets, net of the effects of improved operating results, lower interest rates on variable rate indebtedness, reduced share of losses from affiliates and lower income tax expense, according to the company.

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Atlanta, Georgia 30338

The firm's new telephone number is:
(404) 668-9577

CHARLES GREENE ASSOCIATES
Cable Television Brokerage

Industry Growth

YEAR	TVHH	Homes Passed	Basic Subscribers	% of TVHH	Pay Subscribers	% of TVHH
1990E	93,900,000	81,783,000	50,706,000	54	32,959,000	35
1989E	92,800,000	79,109,000	48,256,000	52	30,883,000	33
1988E	91,000,000	75,833,000	45,500,000	50	28,665,000	32
1987E	89,300,000	72,460,000	42,725,000	48	26,022,000	29
1986	87,800,000	69,632,000	41,772,000	47	24,101,000	27
1985	86,304,000	64,571,000	36,120,000	42	21,672,000	25
1984	84,600,000	59,989,000	32,994,000	39	19,764,000	23
1983	83,500,000	53,641,000	30,300,000	36	17,877,000	21
1982	82,800,000	49,100,000	28,200,000	34	15,898,000	19
1981	80,700,000	44,000,000	22,596,000	28	11,804,000	15
1980	77,800,000	37,300,000	18,672,000	24	7,780,000	10
1979	76,300,000	32,700,000	16,023,000	21	5,341,000	7
1978	74,500,000	27,200,000	14,155,000	19	2,980,000	4
1977	73,300,000	24,894,000	13,194,000	18	1,466,000	2
1976	71,114,000	21,989,000	12,094,000	17	505,000	1
1975	69,600,000	19,900,000	11,136,000	16	N/A	N/A

Source: CableProFile Data Base, INTERNATIONAL COMMUNICATIONS RESEARCH.

Cable barometer

Television households (TVHH)	87,800,000
Homes passed by cable (HP)	69,632,000
Percent of TVHH passed by cable	79.3%
Basic cable subs	41,772,000
Percent of TVHH with basic cable	47.5%
Percent of HP with basic cable	59.9%
Pay cable subs	24,101,000
Percent of TVHH with pay cable	27.4%
Percent of HP with pay cable	34.6%
Percent of basic subs with pay cable	57.6%

Satellite Lineup

Satcom III-R (RCA Americom)	Transponder
Arts & Entertainment	24
BET	20
Cable Radio Network	4
Cable Value Network	12
Cinemax (West)	23
ESPN (Blackout)	7
Electra	6
Eternal Word Television Network	18
Financial News Network	4
Genesis Storytime	3
HBO (West)	13
Home Shopping Network	22
The Learning Channel	2
Lifetime	17
MTV	11
National Jewish Television	18
Nickelodeon	1
PTL	2
QVC Network	8
Reuter Monitor Service	18
Showtime (West)	10
Tempo Sound	6
Tempo Television	6
Tempo Text	6
The Travel Channel	16
Trinity Broadcasting Network	3
TV Decisions	24
USA Network (West)	9
Video Hits One	15
Viewer's Choice	5
The Weather Channel	19

Satcom IV (RCA Americom)	Transponder
Alternate View Network	10
American Movie Classics	10
Biznet	6
Bravo	2
Consumer Discount Network	20, 24
C-Span II	8
Gospel Music Network	3
Hit Video USA	18
Home Shopping Network 2	1
Home Sports Entertainment	11
Home Team Sports	22
Liberty Broadcasting Network	7
Madison Square Garden	6
The Motivation Network	3
National Black Network	19
New England Sports Network	13
Nickelodeon (West)	4
Nostalgia Channel	21
The Playboy Channel	24
Prime Ticket	20
The Silent Network	23V
SportsChannel-New England	23
SportsVision	9
WPIX—New York	19

Westar III (Western Union)	Transponder
CNN	5

Westar IV (Western Union)	Transponder
Atlantic City Horse Racing	6
Cable News Network (CNN)	16
Catholic Telecommunications Network of America	11
National Christian Network	2
International Television Network	10D
Public Broadcasting Service	15, 17, 21, 23
Texas State Network	2
Word of Faith Satellite Network	6

Westar V (Western Union)	Transponder
Fantasy Unrestricted Network (FUN)	24
FUN Weekend Pay-per-view	24
Moody Broadcasting Network	7D
Pro-Am Sports System (PASS)	14
The University Network	2
Zephyr Weather Information Service	7D

Telstar 303 (AT&T)	Transponder
American Extasy	19
Country Music Television (CMTV)	13
KTVT (Dallas)	22
SelecTV	13

Galaxy I (Hughes)	Transponder
CBN Cable Network	11
Cinemax (East)	19
CNN	7
C-SPAN	13
The Discovery Channel	22
The Disney Channel (East)	4
(West)	24
Electra	18
EPG	3
ESPN	9
GalaVision	20
HBO (East)	23
Headline News	8
The Movie Channel (East)	10
(West)	14
The Nashville Network	2
PTL	17
Request Television	12
Seeburg Adult Contemporary	3
Seeburg Contemporary Instrumental	3
Showtime (East)	5
SIN	6
Tempo Text	18
USA Network (East, Central)	21
Video Mall Network	22
Viewer's Choice 2	16
WGN	3
WOR-TV	15
WTBS	18

Galaxy III	Transponder
C-SPAN	24V
C-SPAN II	14V
National Shopping Club	23
The Meadowlands Racing Network	17
Sky Merchant	11

Spacenet I (GTE)	Transponder
ACTS	15

Note: A company name in parentheses following a service or network designates the transponder owner.
Source: International Thomson Communications Inc.

Top 100 MSO's

Rank	Multiple system operator	Basic subs	
1.	Tele-Communications Inc.	4,200,000	(4/87)
2.	American Television and Communications Corp.	3,540,000	(6/87)
3.	Continental Cablevision	1,456,000	(4/87)
4.	Storer Cable Communications	1,395,000	(7/87)
5.	Cox Cable Communications	1,383,015	(6/87)
6.	Warner Cable Communications Inc.	1,341,613	(6/87)
7.	Comcast	1,258,242	(5/87)
8.	United Cable	1,086,457	(4/87)
9.	Newhouse Broadcasting	1,028,543	(5/87)
10.	Heritage Communications Inc.	1,010,717	(5/87)
11.	Viacom Cablevision	996,000	(6/87)
12.	Jones Intercable	915,089	(5/87)
13.	Times Mirror Cable Television Inc.	873,087	(7/87)
14.	Sammons Communications Inc.	826,581	(5/87)
15.	UA Cablesystems Corp.	771,278	(5/87)
16.	Cablevision Systems Corp.	707,800	(5/87)
17.	Paragon Cable	632,000	(5/87)
18.	Century Communications Corp.	600,000	(12/86)
19.	Rogers Cablesystems Inc.	535,207	(2/87)
20.	Daniels & Associates	534,344	(6/87)
21.	Cable Vision Industries	510,100	(5/87)
22.	Telecable Corp.	497,145	(3/87)
23.	Centel Cable	493,765	(4/87)
24.	American Cablesystems Corp.	481,591	(5/87)
25.	Adelphia Communications	443,519	(7/87)
26.	Cooke Cablevision	435,000	(6/87)
27.	Scripps-Howard	380,000	(6/87)
28.	Falcon Cable	379,000	(2/87)
29.	Wometco Cable TV Inc.	377,436	(7/87)
30.	Post-Newsweek	372,344	(4/87)
31.	Prime Cable Corp.	330,709	(7/87)
32.	TCA Group	328,071	(4/87)
33.	Multimedia Cablevision	298,112	(6/87)
34.	Tele-Media	285,300	(3/87)
35.	Colony Communications Inc.	259,229	(4/87)
36.	Maclean Hunter Cable TV Ltd.	250,215	(2/87)
37.	Rifkin & Associates	250,000	(4/87)
38.	Lenfest Group	239,825	(6/87)
39.	Western Communications	238,215	(4/87)
40.	Communications Service Inc.	210,000	(12/86)
41.	Service Electric Cable TV Inc.	195,000	(3/87)
42.	TCI-Taft	191,915	(5/87)
43.	TKR Cable Co.	190,417	(4/87)
44.	Adams-Russell Communications	175,000	(7/87)
45.	Cencom Cable	173,042	(5/87)
46.	Hauser Communications Inc.	170,000	(6/87)
47.	Harte-Hanks Communications	153,119	(4/87)
48.	Harron Communications	151,902	(5/87)
49.	Media General Inc.	151,211	(7/87)
50.	Greater Media	146,951	(4/87)
51.	Sutton Capital Corp.	145,475	(4/87)
52.	Marcus Communications	141,052	(3/87)
53.	Armstrong Utilities	139,060	(7/87)
54.	Palmer Communications	137,936	(5/87)
55.	Televents Inc.	129,801	(2/87)
56.	Blade Communications	128,378	(4/87)
57.	Essex Communications Corp.	126,745	(7/87)
58.	Summit Communications	118,134	(4/87)
59.	U.S. Cable Corp.	114,486	(5/87)
60.	First Carolina Communications Inc.	114,104	(1/87)
61.	Simmons Communications	112,537	(7/87)
62.	Multi-Channel TV Cable Inc.	109,412	(7/87)
63.	Sonic Communications	109,240	(5/87)
64.	Columbia International	109,000	(7/87)
65.	Scott Cable Communications	106,277	(7/87)
66.	Booth Communications	104,376	(5/87)
67.	Brosnan Communications Co.	104,136	(4/87)
68.	King Videocable	102,000	(3/87)
69.	Northland Communications	101,735	(5/87)
70.	M.L. Media Partners	98,166	(4/87)
71.	Susquehanna Broadcasting	90,923	(3/87)
72.	McDonald Group	90,079	(5/84)
73.	Midcontinent Cable Systems Co.	89,104	(3/87)
74.	James Communications	87,533	(2/87)
75.	WEHCO Video	87,448	(3/87)
76.	United Video Management	82,763	(6/87)
77.	Fencor Services	79,028	(3/87)
78.	Omega Communications	77,626	(1/87)
79.	C4 Media Corp.	68,171	(7/87)
80.	Selkirk Communications	66,581	(5/87)
81.	Wisconsin Cablevision and Radio Co.	63,425	(3/87)
82.	Acton Corp.	60,035	(1/87)
83.	Mountain Cable Co.	58,650	(7/87)
84.	Masada Corp.	58,293	(4/87)
85.	Galaxy Cablevision	56,462	(3/87)
86.	Cardinal Communications	54,000	(5/87)
87.	Chambers Communications Corp.	53,809	(3/87)
88.	Enstar Communications	53,121	(6/87)
89.	Insight Communications	52,966	(6/87)
90.	North American Comm. Corp.	50,616	(3/87)
91.	Tidel Communications	50,427	(4/87)
92.	State Cable TV	49,956	(7/87)
93.	Hearst Communications of California	49,447	(4/87)
94.	Helicon Corp.	48,000	(4/87)
95.	New England Cablevision	47,005	(7/87)
96.	Joseph Gans Cable TV	46,532	(11/86)
97.	Dowden Cable	46,016	(6/87)
98.	Commonwealth Cable Systems	45,900	(5/87)
99.	Donroy Cablevision	44,112	(4/87)
100.	CableAmerica	43,082	(1/87)

Subscriber counts are provided by MSOs and systems to International Thomson Communications Inc. Figures will be updated quarterly unless information is provided by MSOs or systems. Send updates to CableVision, Attention Cable Stats, P.O. Box 5208-T.A., Denver, CO 80217.

Top 100 Systems

Rank	Location	Operator	Basic subs	
1.	San Diego, CA	Cox Cable	282,381	(6/87)
2.	Woodbury (Long Island), NY	Cablevision Systems Corp.	282,000	(5/87)
3.	Manhattan, NY	ATC	233,200	(6/87)
4.	San Antonio, TX	Rogers	220,510	(3/87)
5.	East Orange, NJ	Maclean Hunter	189,917	(3/87)
6.	Houston, TX	Warner	184,926	(6/87)
7.	Honolulu, HI	ATC	182,500	(6/87)
8.	Puget Sound, WA	Viacom	175,000	(1/87)
9.	Phoenix, AZ	Times Mirror	165,688	(7/87)
10.	Cincinnati, OH	Warner	156,863	(6/87)
11.	Louisville/Jeff. Co., KY	Storer Communications	155,480	(7/87)
12.	Wayne, NJ	UA Cablesystems	154,622	(5/87)
13.	Englewood, CO	United Cable	154,165	(4/87)
14.	Hampton Roads, VA	Cox Cable	146,972	(6/87)
15.	Tulsa, OK	United Cable	145,350	(4/87)
16.	Rochester, NY	ATC	145,300	(6/87)
17.	St. Louis Co., MO	Cencom Cable	145,172	(12/86)
18.	Cherry Hills, NJ	NYT	145,075	(7/87)
19.	Orlando,FL	ATC	143,500	(6/87)
20.	Atlanta, GA	Prime Cable Corp.	140,737	(7/87)
21.	Fairfax, VA	Media General	140,500	(7/87)
22.	Hartford/Plainville, CT	United Cable	136,479	(2/87)
23.	Jacksonville, FL	Continental	136,000	(4/87)
24.	Kansas City, MO	ATC	130,000	(6/87)
25.	Baltimore County, MD	Comcast	128,552	(5/87)
26.	Buffalo, NY	Adelphia Communications	128,105	(4/87)
27.	Erie County, NY	Adelphia	127,160	(3/87)
28.	Seattle, WA	Tele-Communications Inc.	125,000	(12/86)
29.	Manhattan, NY	Paragon Cable	125,000	(5/87)
30.	Memphis/W. Memphis, TN	ATC	120,400	(6/87)
31.	San Jose, CA	Gill Industries	119,100	(2/87)
32.	Charlotte, NC	ATC	118,791	(3/87)
33.	Long Island, NY	Viacom	112,000	(1/87)
34.	Austin, TX	ATC	110,900	(6/87)
35.	San Diego, CA	ATC	107,400	(6/87)
36.	San Francisco, CA	Viacom	106,500	(1/87)
37.	Pompano, FL	American Cablesystems	106,224	(5/87)
38.	Toledo, OH	Blade Communications	105,500	(7/87)
39.	San Juan, PR	ML Media Partners	104,823	(11/86)
40.	Warren, NJ	TKR	104,569	(6/87)
41.	Dallas, TX	Heritage	102,281	(5/87)
42.	Southeast Michigan	Comcast	100,031	(5/87)
43.	Jefferson Parish/Kenner, LA	Cox Cable	97,718	(3/87)
44.	Pinellas County, FL	Vision Cable	94,996	(4/87)
45.	Wilmington, DE	Heritage	94,645	(5/87)
46.	Grand Rapids, MI	UA Cablesystems	94,542	(5/87)
47.	Dade/Broward, FL	Storer	91,511	(7/87)
48.	Escondido, CA	Times Mirror	90,893	(7/87)
49.	Indianapolis, IN	Comcast	88,821	(5/87)
50.	Raleigh/Durham, N.C.	ATC	86,198	(3/87)
51.	Richmond, VA	Continental	86,866	(3/87)
52.	Pittsburgh, PA	Tele-Communications Inc.	85,000	(12/86)
53.	Oakland County, MI	United Cable	82,304	(2/87)
54.	Boston, MA	Cablevision	82,100	(5/87)
55.	Wichita, KS	Multimedia Cablevision	81,995	(5/87)
56.	Tacoma, WA	Viacom	80,500	(2/87)
57.	South Texas, TX	Heritage	79,981	(5/87)
58.	Flint, MI	Comcast Cable	79,812	(5/87)
59.	Milwaukee, WI	Warner	78,635	(6/87)
60.	Orange County, CA	Times Mirror	78,287	(7/87)
61.	Baton Rouge, LA	Daniels & Assocs.	77,879	(4/87)
62.	Akron, OH	Warner	76,668	(6/87)
63.	Las Vegas, NV	Prime	75,169	(7/87)
64.	Chicago, IL	Westinghouse Broadcasting	75,000	(4/86)
65.	New Orleans, LA	Cox Cable	74,614	(3/87)
66.	South Bend, IN	Heritage	74,321	(5/87)
67.	Melbourne/Cocoa, FL	ATC	74,200	(6/87)
68.	Santa Monica, CA	Century	74,000	(5/86)
69.	Nashville, TN	Viacom	74,000	(1/87)
70.	Allentown, PA	Service Elec.	74,000	(3/87)
71.	Dover, Morristown, NJ	Sammons	73,787	(5/87)
72.	Ocean County, NJ	Adelphia	71,961	(7/87)
73.	Cleveland Heights, OH	Viacom	71,600	(1/87)
74.	Columbus, OH	Warner	70,984	(6/87)
75.	Medford Complex (Boston Suburbs), MA	Warner	70,659	(6/87)
76.	Fayetteville, NC	ATC	70,136	(3/87)
77.	Omaha, NE	Cox Cable	69,846	(3/87)
78.	Contra Costa Co. CA	Televents	69,474	(4/87)
79.	Harrisburg, PA	Sammons Communications	69,172	(5/87)
80.	Little Rock, AR	Storer	68,043	(7/87)
81.	St. Petersburg, FL	Paragon Cable	68,000	(5/87)
82.	Indianapolis,IN	ATC	67,600	(6/87)
83.	Des Moines, IA	Heritage	66,835	(5/87)
84.	Albuquerque, NM	Jones Intercable	66,470	(7/87)
85.	Birmingham, AL	ATC	66,254	(3/87)
86.	New Haven, CT	Storer	65,894	(7/87)
87.	Greater Bridgeport, CT	Cablevision Co.	65,800	(5/87)
88.	Lower Fairfield Co., CT	Cablevision Co.	65,600	(5/87)
89.	El Paso, TX	Group W (ATC)	65,000	(5/87)
90.	Syracuse (suburbs), NY	NewChannels Corp.	64,847	(3/87)
91.	Oklahoma City, OK	Cox Cable	64,444	(3/87)
92.	Winston-Salem, N.C.	Summit	64,072	(4/87)
93.	Monterey, CA	Western Communications	63,815	(4/87)
94.	W. San Fernando Valley, CA	Valley Cable	63,344	(7/87)
95.	Lincoln, RI	Heritage	63,128	(5/87)
96.	Cook County, IL	Continental	63,000	(4/87)
97.	Madison, WI	Tele-Communications Inc.	63,000	(12/86)
98.	Westchester Co., NY	UA Cablesystems	62,804	(5/87)
99.	Santa Barbara, CA	Cox Cable	62,763	(3/87)
100.	Charleston, S.C.	Storer	62,413	(7/87)